

**Government of the District of Columbia
Office of the Chief Financial Officer
Office of Revenue Analysis**

Washington DC's Tax System

A Visual Guide



2024

Muriel Bowser
Mayor

Phil Mendelson, Chairman
Council of the District of Columbia

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This report was modeled after a similar report from the State of California's Legislative Analyst's Office on visualizing state tax revenues.

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Introduction

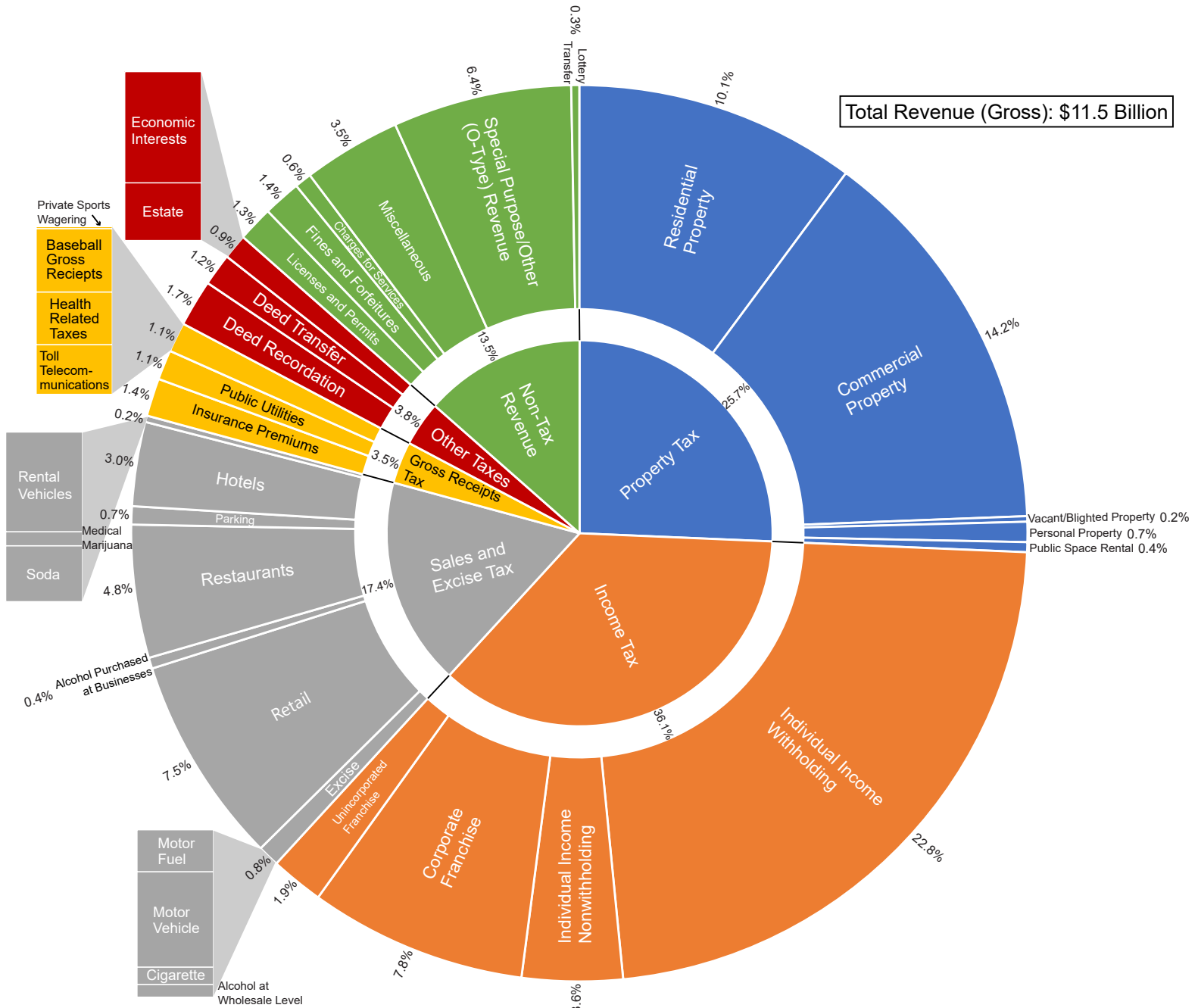
The District of Columbia's government relies on three main taxes. In tax year 2023, the income tax was the District's main revenue source at 36.1 percent. The property tax, predominantly taxes on commercial properties, was the second largest source with 25.7 percent. And the District's sales, use, and excise tax was the third with 17.4 percent. In addition, there are many smaller taxes that raise revenue for the operation of the District. The District raised a total of \$11.5 billion in taxes and non-tax revenue--equal to 7.9 percent of the District's economy (measured by real gross domestic product) in 2023. The total real GDP for DC in 2023 was \$145.4 billion.

The chart on the next page summarizes this tax system including non-tax revenues. The inner part of the pie chart shows the major types of taxes with their percentages of the total amount collected on the outside. The outer part of the pie chart breaks down each major tax and non-tax by source with percentages of how each source contributes to the total revenue collected on the outside. For example, the biggest source of income tax revenue is individual income withholding, meaning income earned from an employer that holds a portion of your wage or salary to pay your income taxes for you.

In addition to taxes, the District government relies on federal funds, fees, fines, and other sources of non-tax revenue to fund government operations. This publication, however, focuses on taxes levied in the District of Columbia.

Overview of the District of Columbia's Local Revenues

FY 2023



Chapter

1

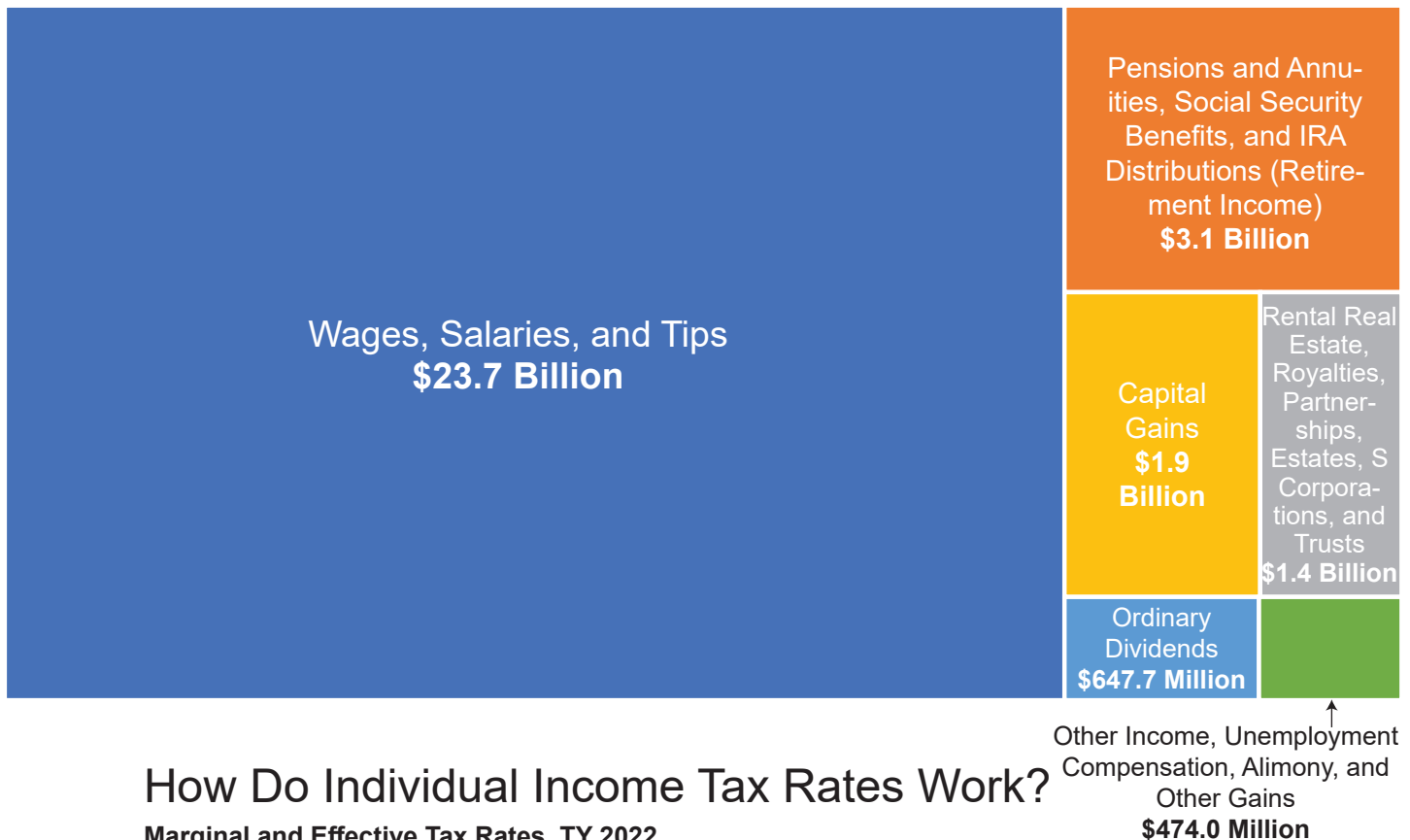
Income Taxes

Income Tax

The income tax is a broad-based tax that the District levies on most types of income, such as wages and capital gains for individuals, or the net profit of corporations. The income tax is an important revenue source for the District government, generating more than one-third of the revenue for the local fund, the District's main operating account, every tax year. While property tax revenues in the past decade exceeded income tax revenues, in recent years after the COVID-19 pandemic the income tax has brought in more revenue than the property tax. Like the calendar year, the tax year for income taxes starts on January 1st and ends on December 31st. Tax Year (TY) 2021 and 2022 is used to describe the income tax chapter as it represents our latest data. TY 2021 data comes from the Federal government's portion of the individual income tax and TY 2022 comes from the District government's portion.

Total Income -- About Three-Quarters Of Residents' Income Comes From Wages, Salaries, And Tips

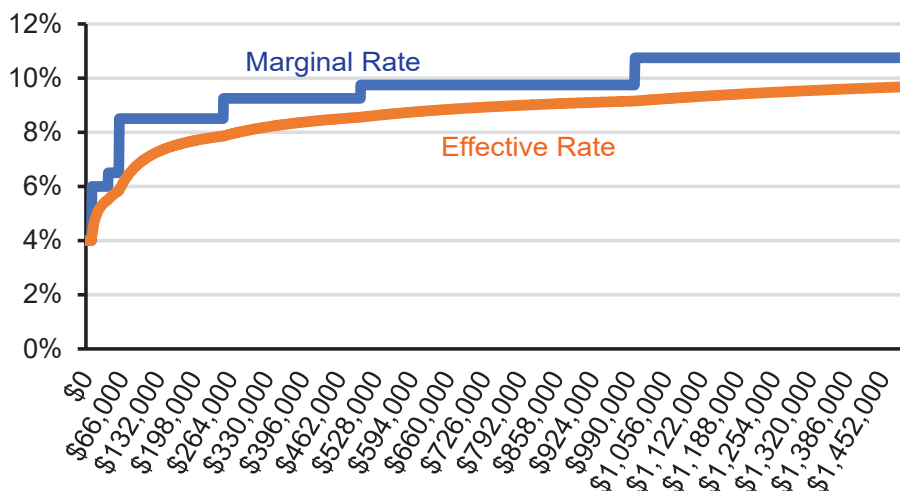
Tax Year (TY) 2021



How Do Individual Income Tax Rates Work?

Marginal and Effective Tax Rates, TY 2022

The individual income tax rates shown in the table below are the marginal rates, meaning the rates are applied to the income increments above the lower limits of the ranges. For example, a single filer with taxable income of \$500,000 is taxed at 4 percent on the first \$10,000 of their income, but 9.25 percent on the last \$250,000 of their income. A taxpayer's highest marginal rate is higher than their effective rate (the average rate at which their income is taxed). For example, a single filer with \$200,000 in taxable income is taxed at 8.5 percent on their last dollar of income but their effective tax rate (before tax credits) is 7.7 percent.

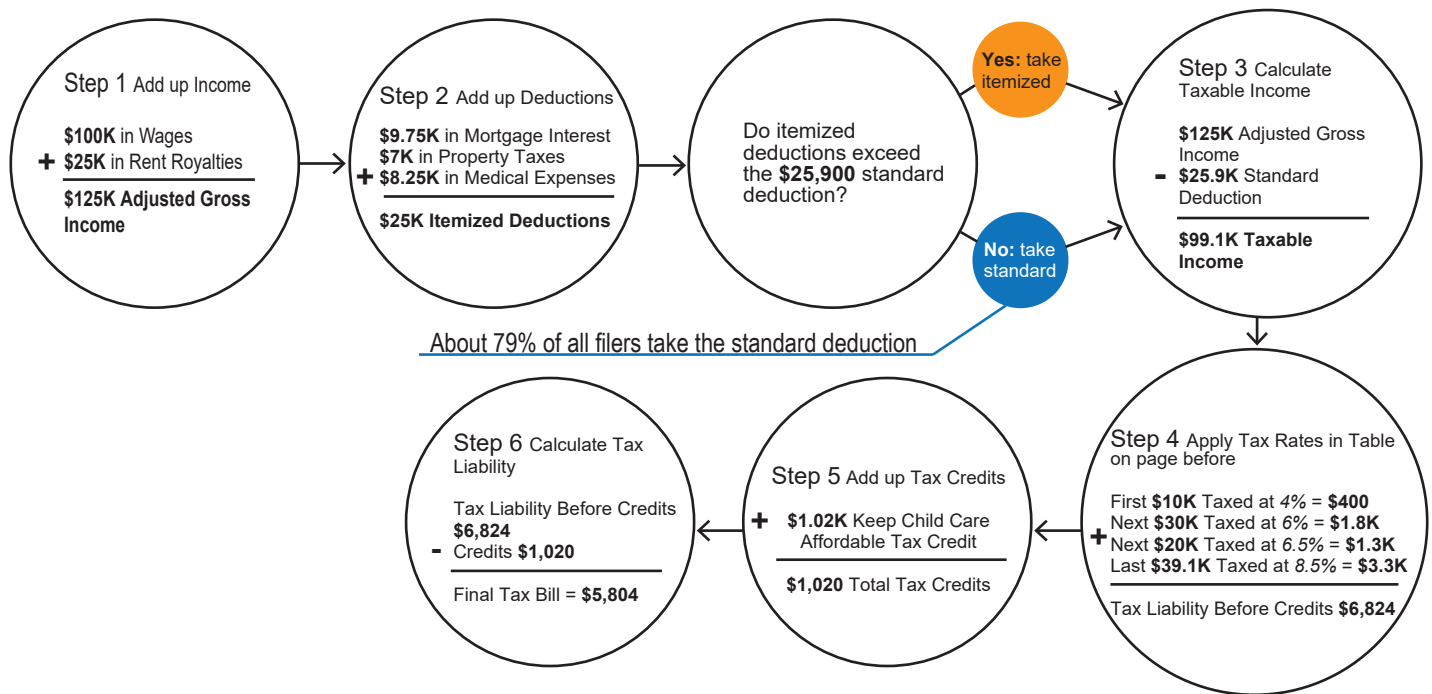


From January 1, 2022
to Present:

Marginal Rates	Income Brackets
4%	\$0K - \$10K
6%	\$10K - \$40K
6.5%	\$40K - \$60K
8.5%	\$60K - \$250K
9.25%	\$250K - \$500K
9.75%	\$500K - \$1M
10.75%	\$1M and Over

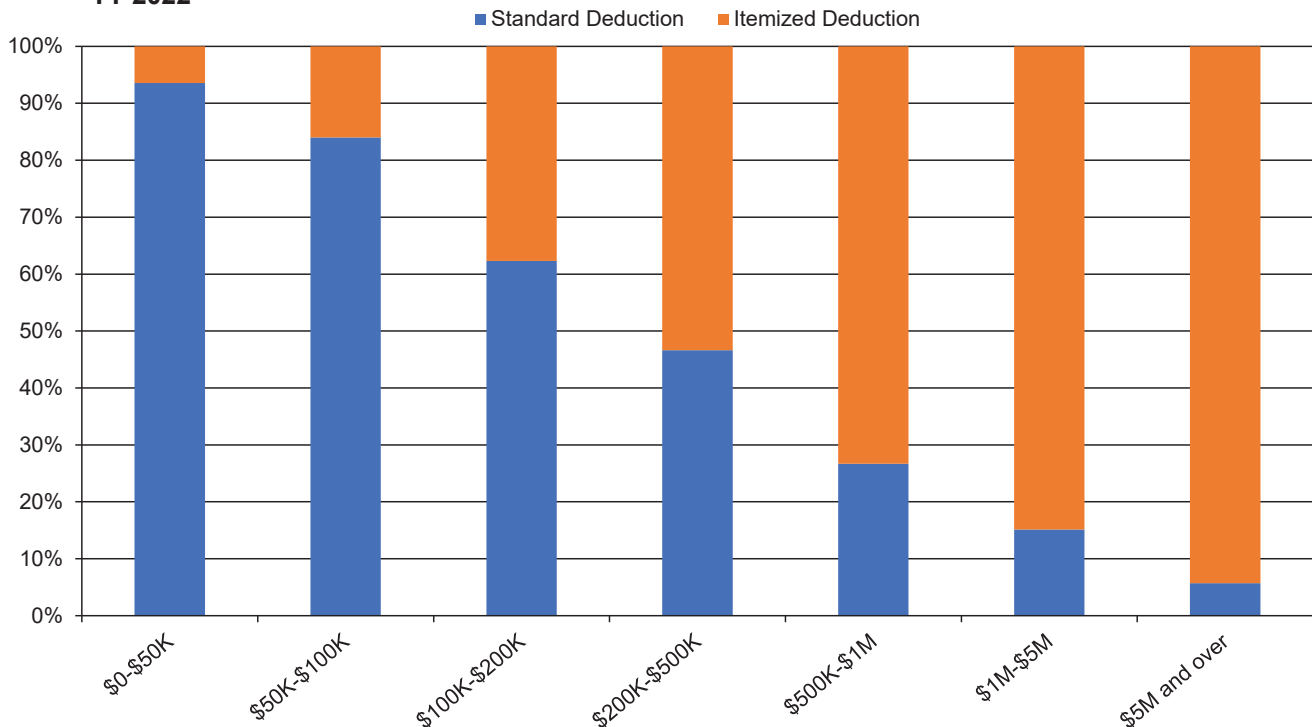
Calculating The Individual Income Tax Bill

Married Couple With One Dependent Filing Jointly, TY 2022



A Breakdown Of Filers By Income Opting For Standardizing vs. Itemizing Their Deductions

TY 2022

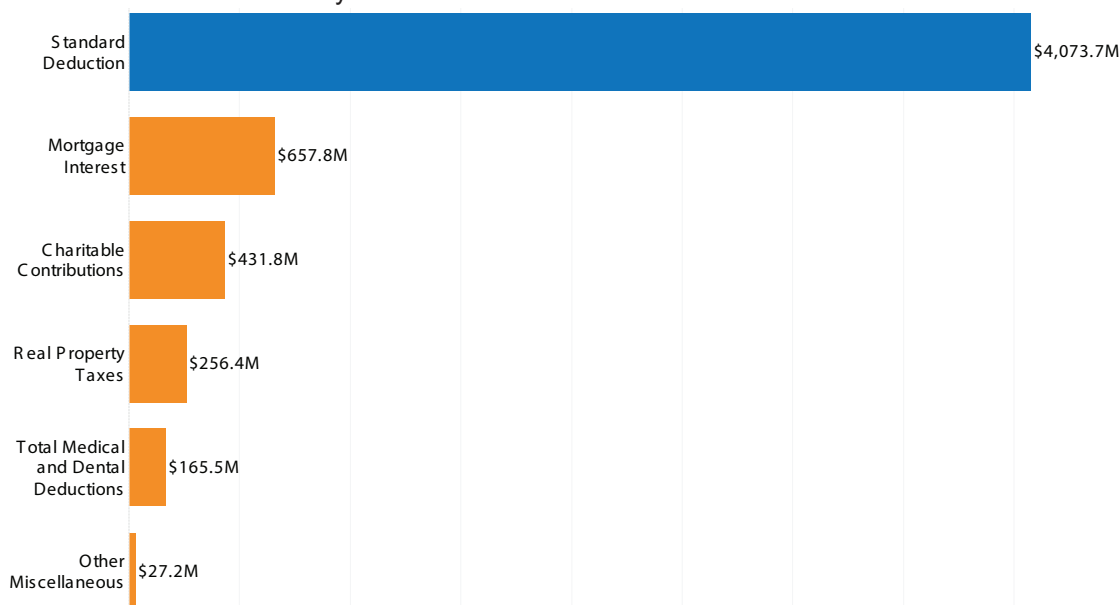


Note: In TY 2018, DC conformed its standard deduction amount to the federal government's standard deduction and as of TY 2022 the amount was \$12,950 for single filers and married filing separately, \$19,400 for head of households, and \$25,900 for married filing jointly and surviving spouses with annual cost of living adjustments every year after.

Breakdown of Deductions

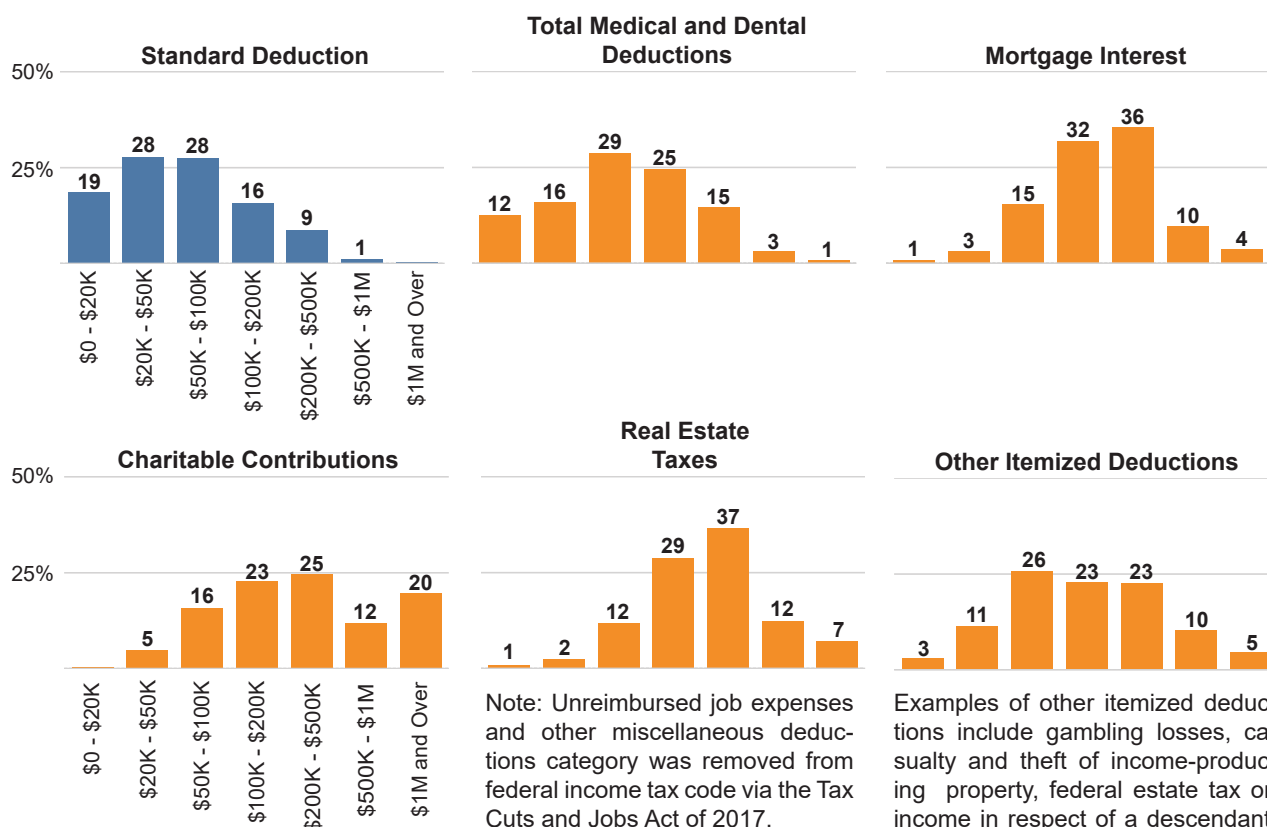
In Millions, TY 2021

Individual income tax (IIT) deductions reduce taxpayers' incomes. In total, deductions reduced taxable income by about \$5.61 billion in Tax Year 2021, down \$43.3 million from TY 2020 probably due to decreases in income caused by the COVID-19 pandemic. The 20.7 percent of filers who took the itemized deductions made up about 54.2 percent of the total federal adjusted gross income made in the District, about 2.1 percent below TY 2020 level. The chart below shows how much filers deducted from their tax liability in 2021.



Who Uses Deductions?

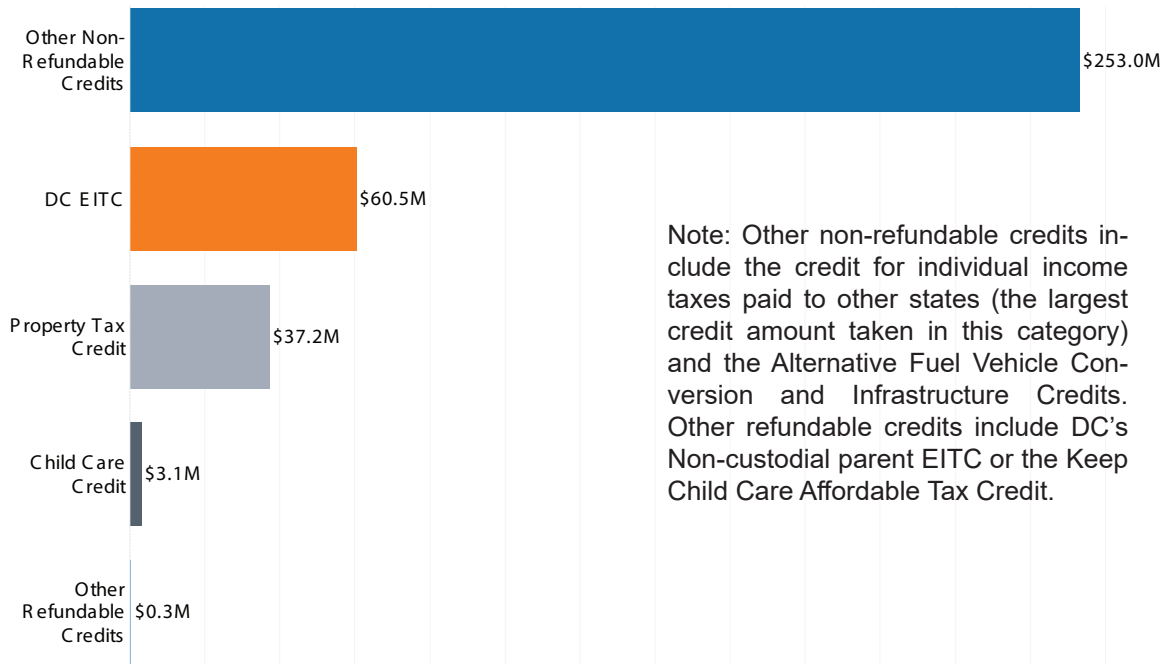
Share of Deduction Value by Income Group, TY 2021



Breakdown of Refundable Credits

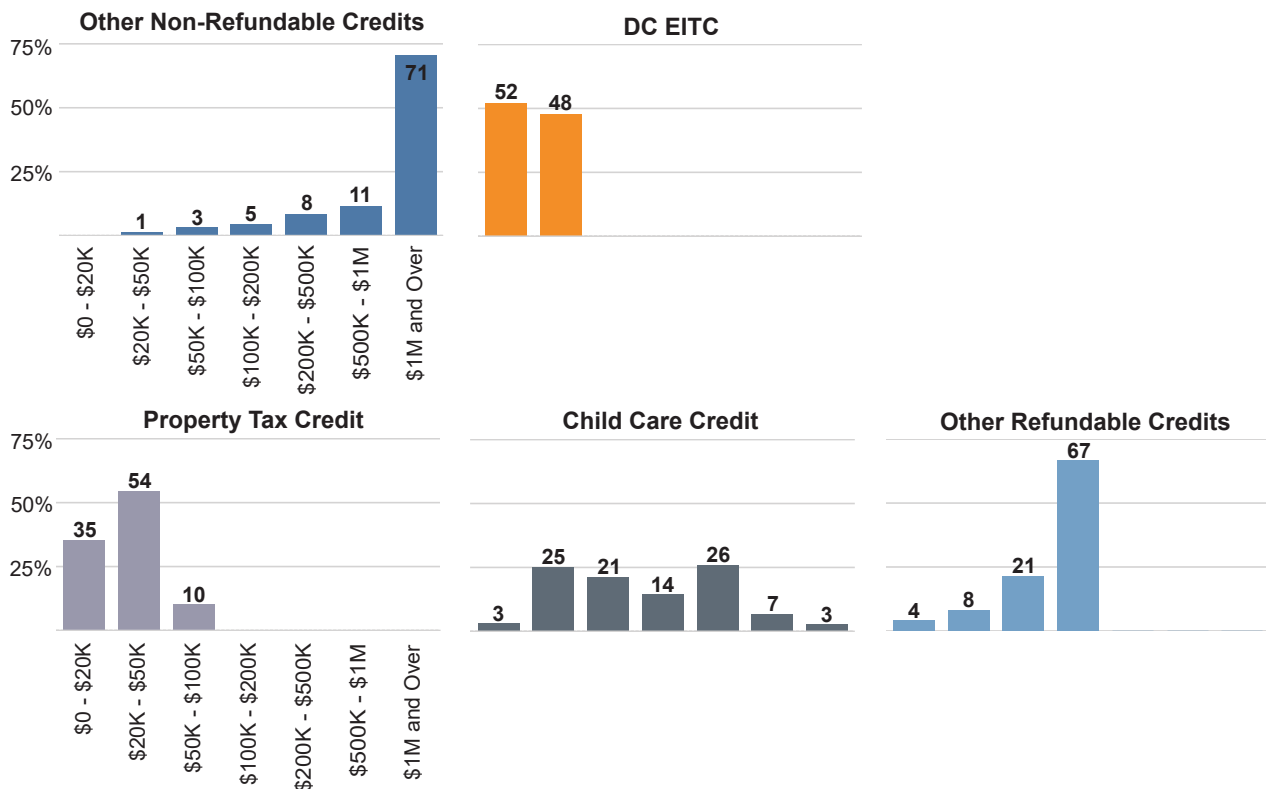
In Millions, TY 2022

IIT credits reduce tax liabilities dollar for dollar, resulting in a dollar-for-dollar reduction in District revenue. With the exception of the Earned Income Tax Credit (EITC), Property Tax Credit, or Child Care Credit, credits cannot reduce a taxpayer's liability below zero.



Who Uses These Credits?

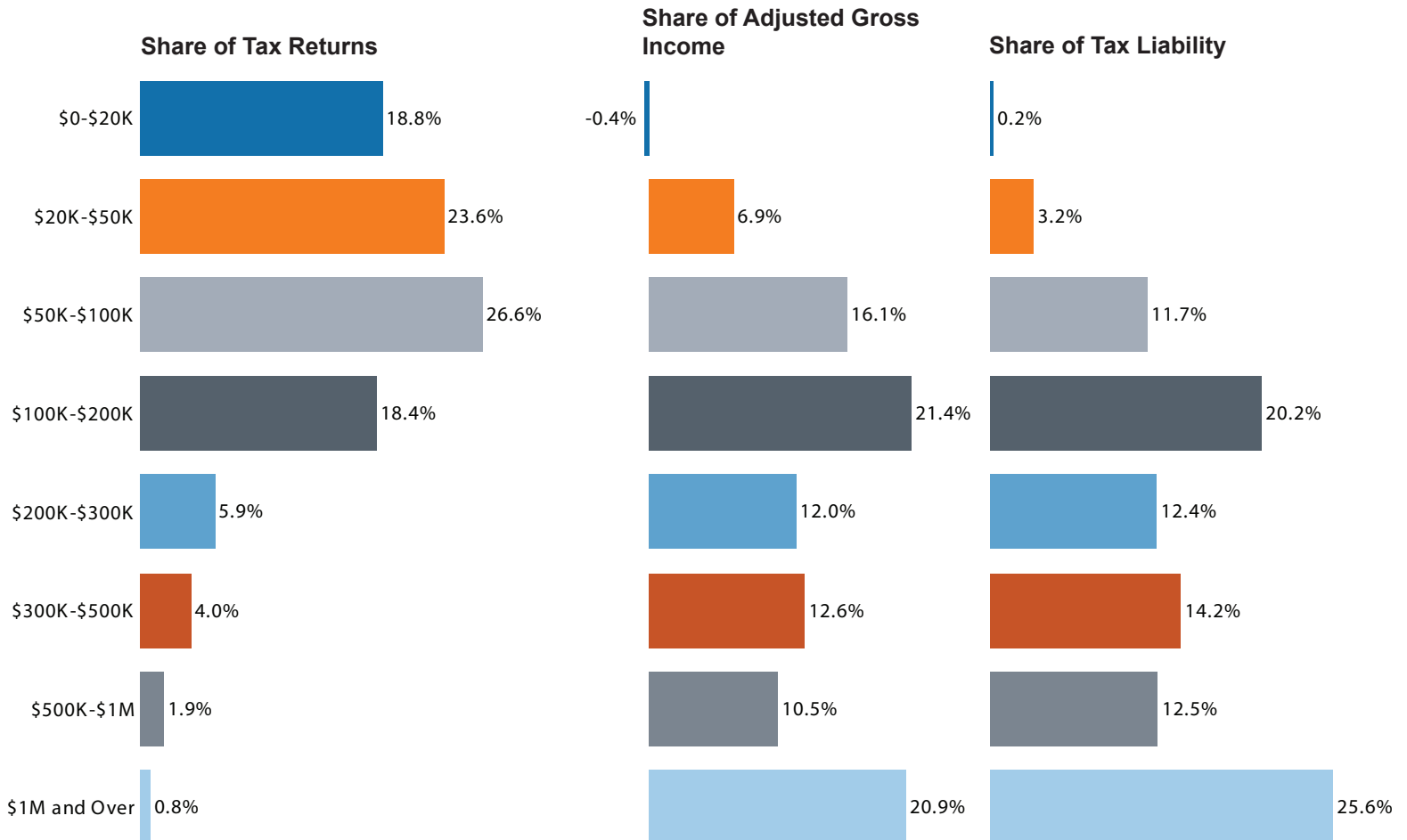
Share of Credit Value by Income Group, TY 2022



IIT Liability Concentrated Among Earners Over \$100K

Tax Statistics by Income Group, TY 2022

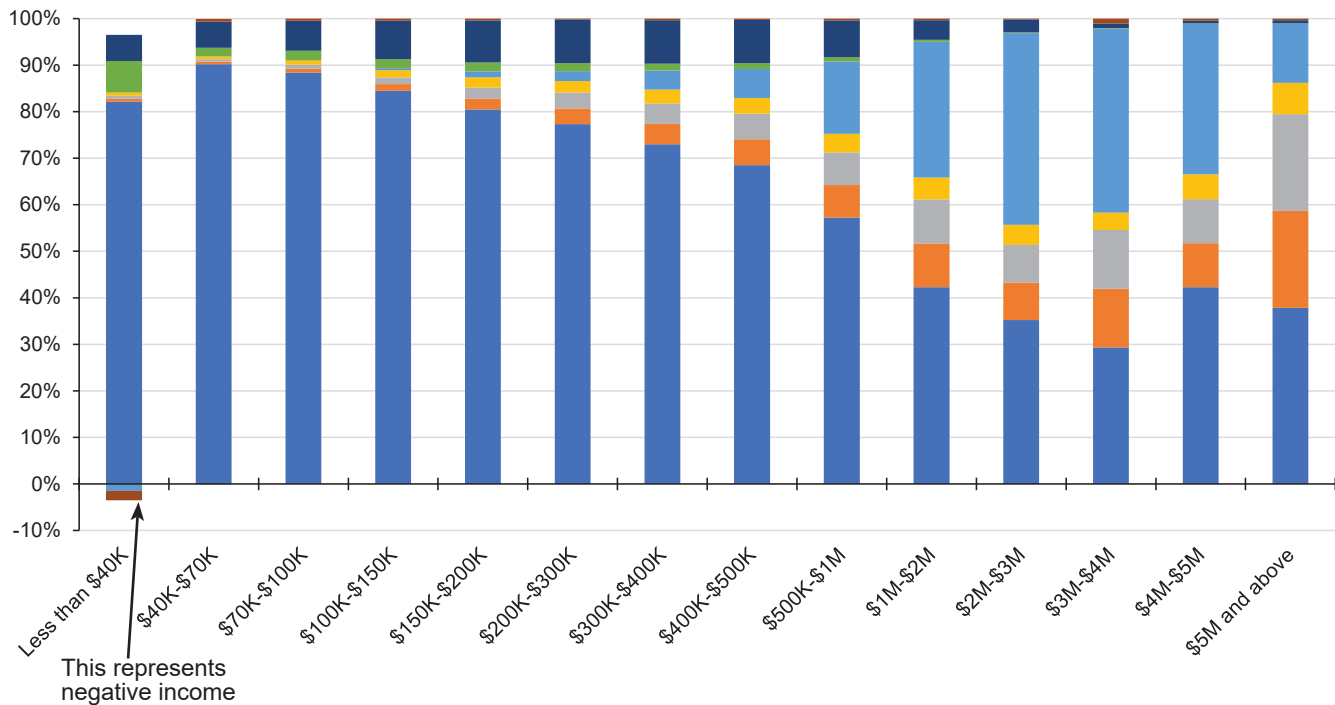
The District's individual income tax is progressive meaning the more income you earn the higher your tax rate. Income also determines eligibility for credits which reduce tax liability, sometimes resulting in a refund.



Income Composition Different For Low- And High-Income Taxpayers

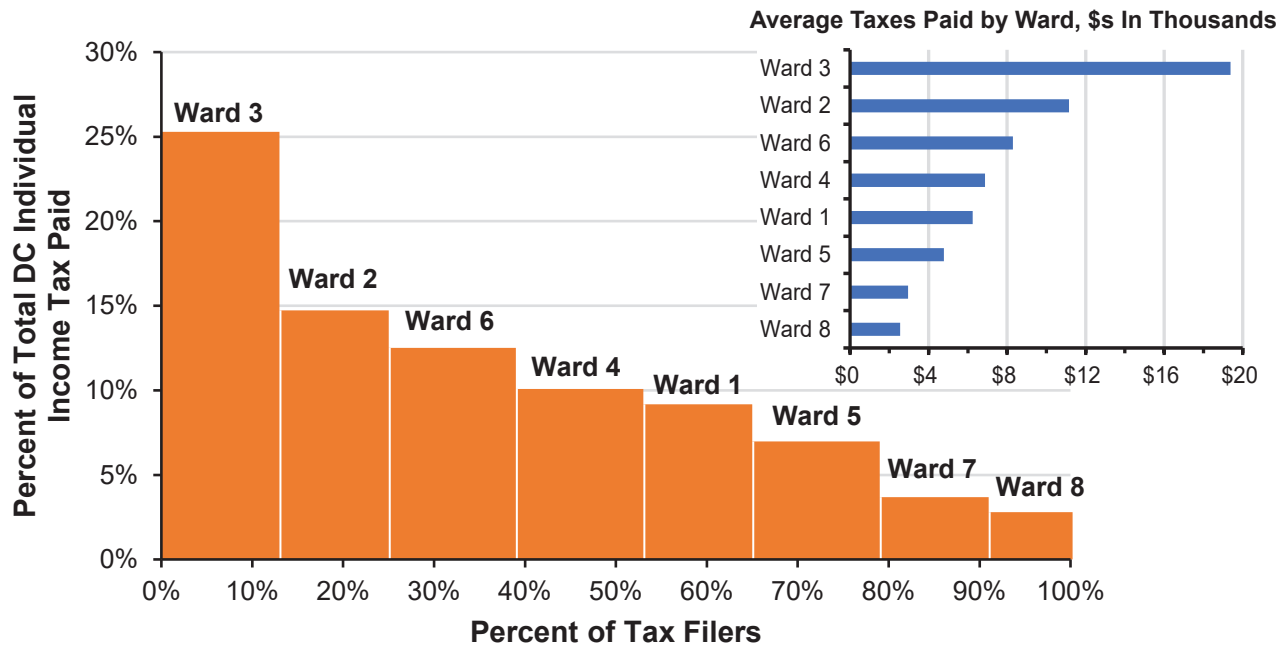
TY 2022

The graphic below shows how taxpayers in different income groups derive their income. Some types of income, including **wages and salaries**, **social security**, and **retirement income** (pensions, annuities, and IRA distributions) make up a majority of low- and middle-income taxpayers' incomes. These sources, however, account for a minority of the total incomes of the highest-income taxpayers, whose incomes are derived mostly from **capital gains**, **dividends**, **rents and royalties**, and **business income**. (Other income is shown in brown which includes alimony and workers compensation.)



Distribution of IIT Paid by Ward

TY 2022



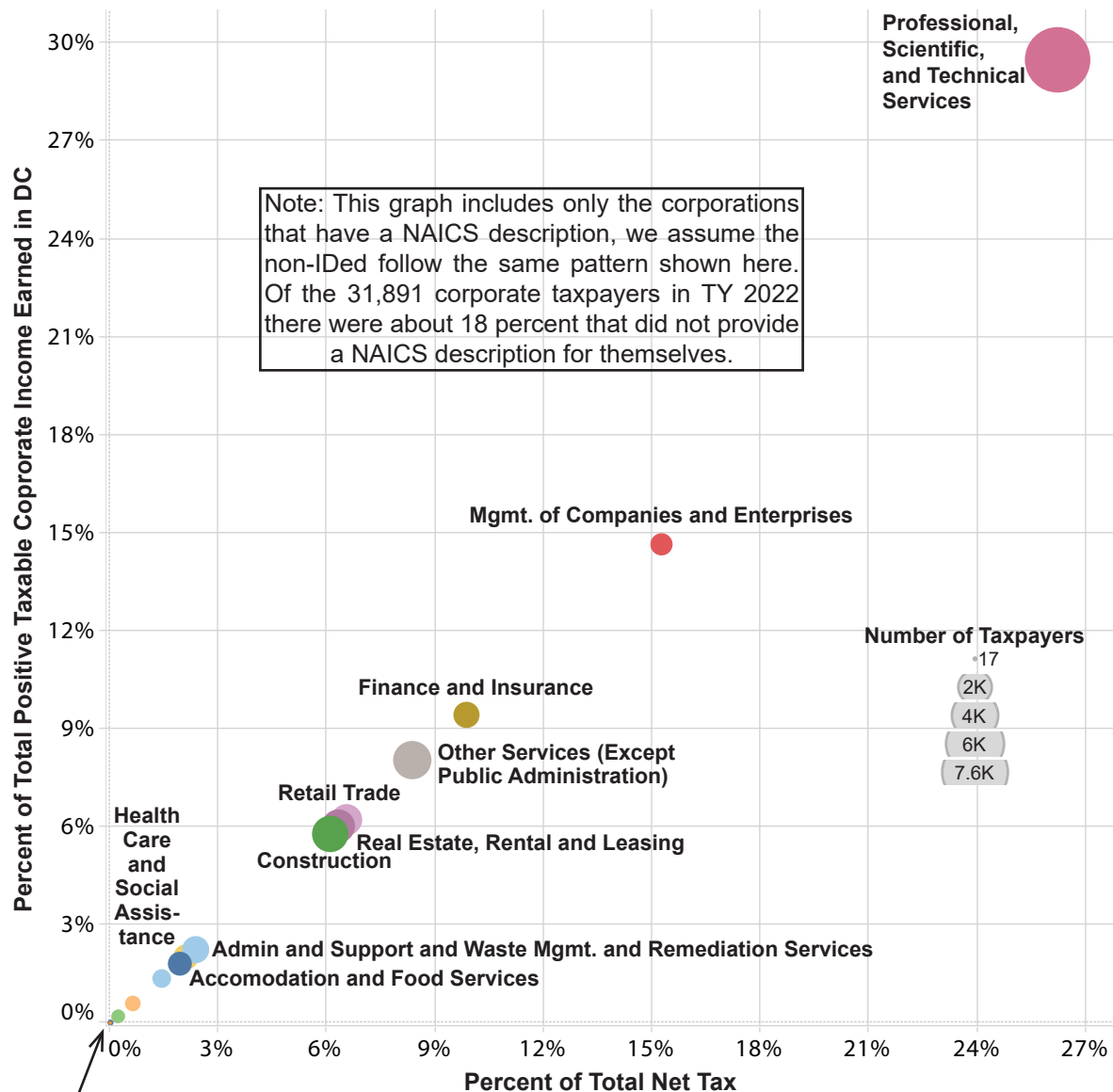
Corporate and Unincorporated Franchise Taxes

DC law specifies which types of income are subject to the income tax. The District has chosen to tax a business' or corporation's profit, which is its revenue minus expenses, from income earned in the District. In order to engage in or conduct a trade, business or profession in the District, one must register with the Department of Licensing and Consumer Protections or face recurring fines. Like most other states, the District has chosen to tax corporate income, which is relatively volatile based on yearly fluctuations in companies' profits. Another reason for the volatility of this tax are the deductions available to taxpayers like salaries and wages of employees, interest payments on business debt, other deductions such as advertising connected with the business of income production, etc. The wide range of deductions available to companies allow them to engage in tax planning to minimize their tax liabilities to the District.

Which Industry Pays More Corporate Franchise Tax?

TY 2022

The District levies a tax on the net corporate income earned in the District. For most corporations, the tax rate was 8.25 percent in Tax Year 2022. Since 2010, franchise tax revenue has made up an average of 7.5 percent of total tax revenue per year in the District. In TY 2022, the average effective tax rate for a corporate filer with positive income was 8.0 percent. Out of all the major industries who filed a return and reported a NAICS description, professional, scientific, and technical services had the lowest effective tax rate at 7.1 percent.

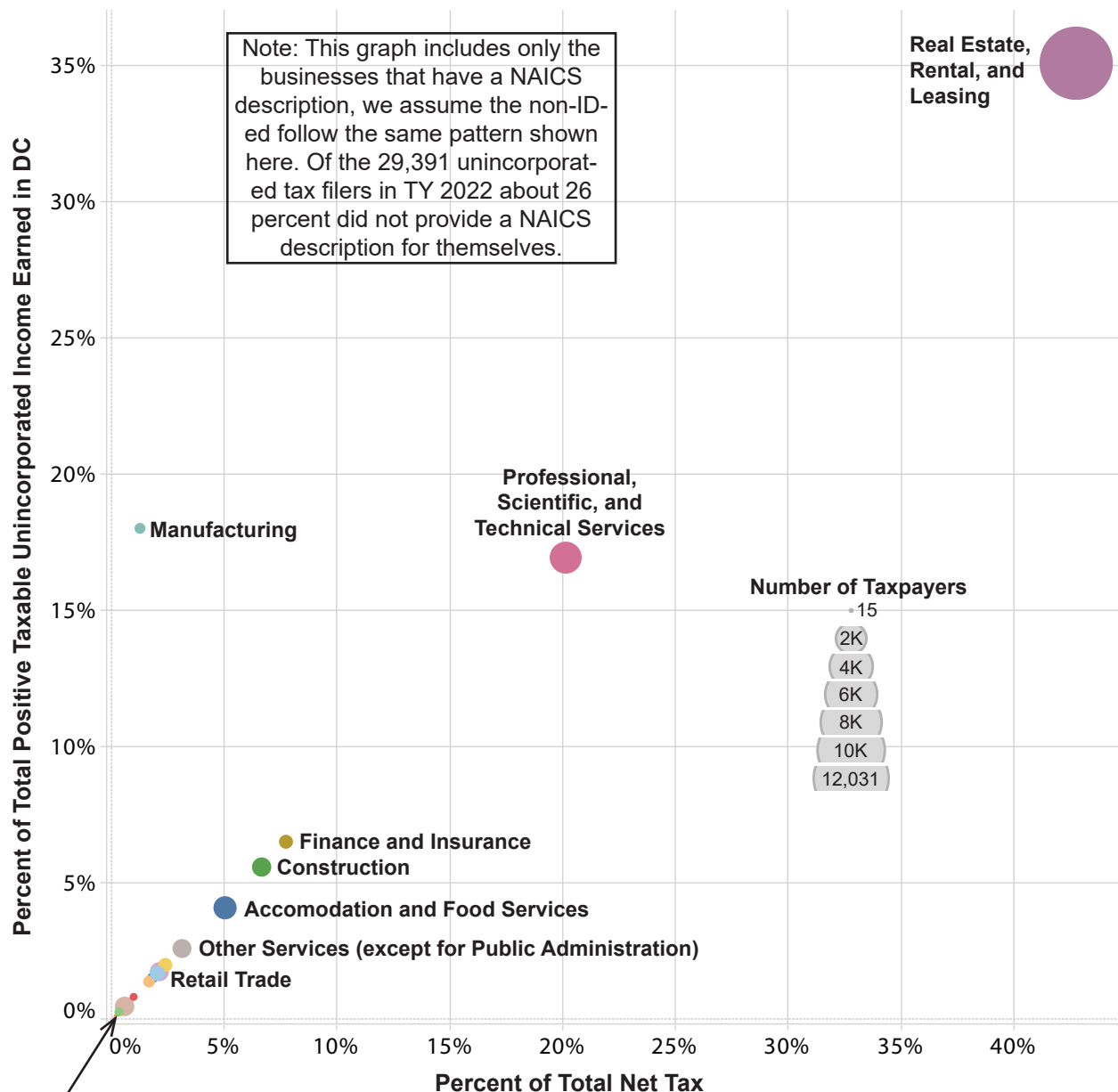


A relatively large number of corporations in multiple industries had little to no net income.

Which Industry Pays More Unincorporated Franchise Tax?

TY 2022

The tax on unincorporated businesses is imposed on businesses with gross income over \$12,000. Similar to the tax on corporations, the District levies a tax on the net corporate income those unincorporated businesses earned in the District. For most unincorporated businesses in Tax Year 2022, the tax rate was 8.25 percent.



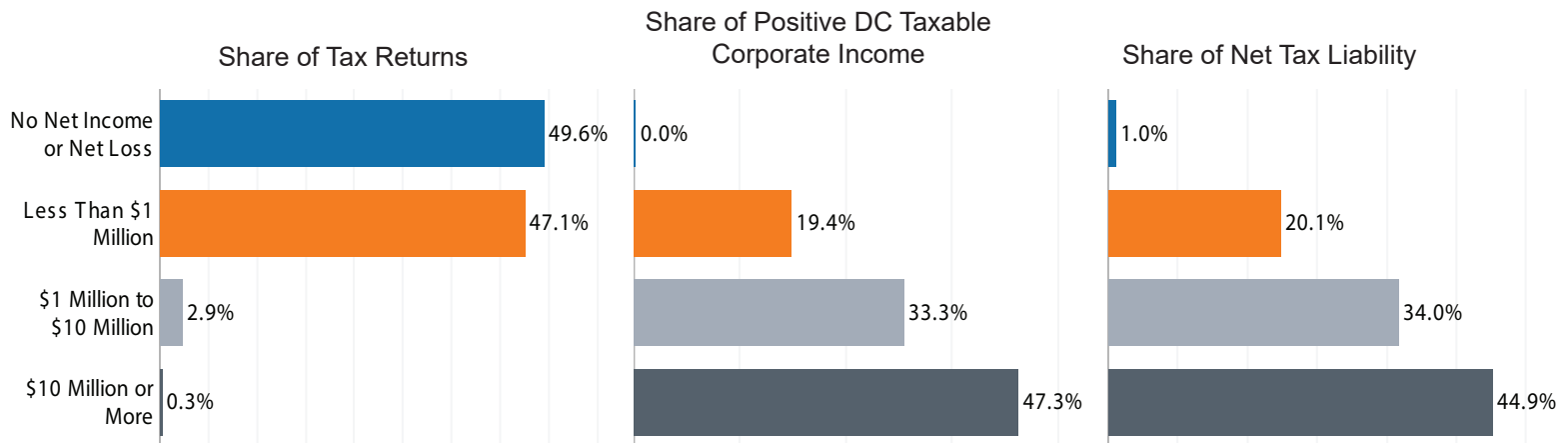
A relatively large number of unincorporated businesses in multiple industries had little taxable income as compared to the larger industries.

Note: The Mining and Quarrying industry has been left out of this graph due to its number of identifying taxpayers being below the IRS' cutoff for disclosing Federal Tax Information.

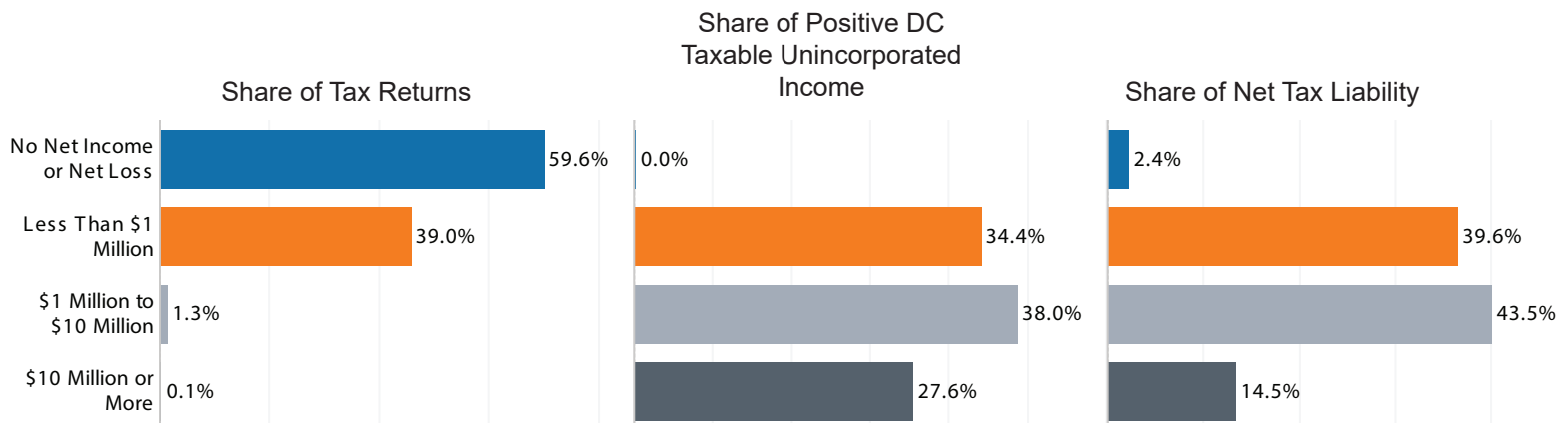
0.3 Percent of Returns Account for 45 Percent of Tax Liability for All Corporations in the District

Tax Statistics by Income Group, TY 2022

Net corporate income is all revenue less deductions for most of the costs of doing business. These deductions may include the cost of renting an office space, interest payments, bad debts, and employee compensation. Most corporations have more deductions than their gross revenue, resulting in a net loss.



1.4 Percent of Returns Account for 58.0 Percent of Tax Liability for All Unincorporated Businesses



Chapter

2

Property Taxes

Property Tax

For many Washingtonian homeowners, the property tax bill is the largest lump sum tax bill they receive twice a year. The District of Columbia's Office of Tax and Revenue collects the property tax. A portion of the tax revenue is dedicated toward repayment of Tax Increment Finance (TIF) and Payment In Lieu of Taxes (PILOT) bonds. The non-dedicated property tax revenue that is transferred to the local fund are for District-wide government services such as the education system, health and social services, and criminal justice programs.

Property taxes are levied on real property (land and buildings), as well as some types of personal property and public space rental. The residential real property or Class 1 tax rate is \$0.85 per \$100 of assessed value and the lowest commercial or Class 2 tax rate is \$1.65 per \$100 of assessed value. In the FY 2019 Budget Support Act of 2018, DC legislators raised the top commercial tax rate to \$1.89 from \$1.85 per \$100 and added a middle rate of \$1.77 per \$100. In Fiscal Year 2023, property tax revenue for the District was almost \$3 billion. The Tax Year for property tax differs from income as it follows the District's Fiscal Year, which starts on October 1st and ends on September 30th.

The DC Government has enacted multiple tax relief programs such as the homestead deduction, annual homestead assessment cap credit, interest free property tax deferral, and historic building tax credits to assist elderly and disabled District residents age in place and homeowners curb rising taxes. The DC Council and Mayor have also passed other tax relief programs for low income residents such as the Long-term Homeowners tax credit, First-time Homebuyer income tax credit (now expired), Lower Income Home Ownership tax abatement, or the "circuit-breaker" tax credit to help them manage rising assessments and taxes.

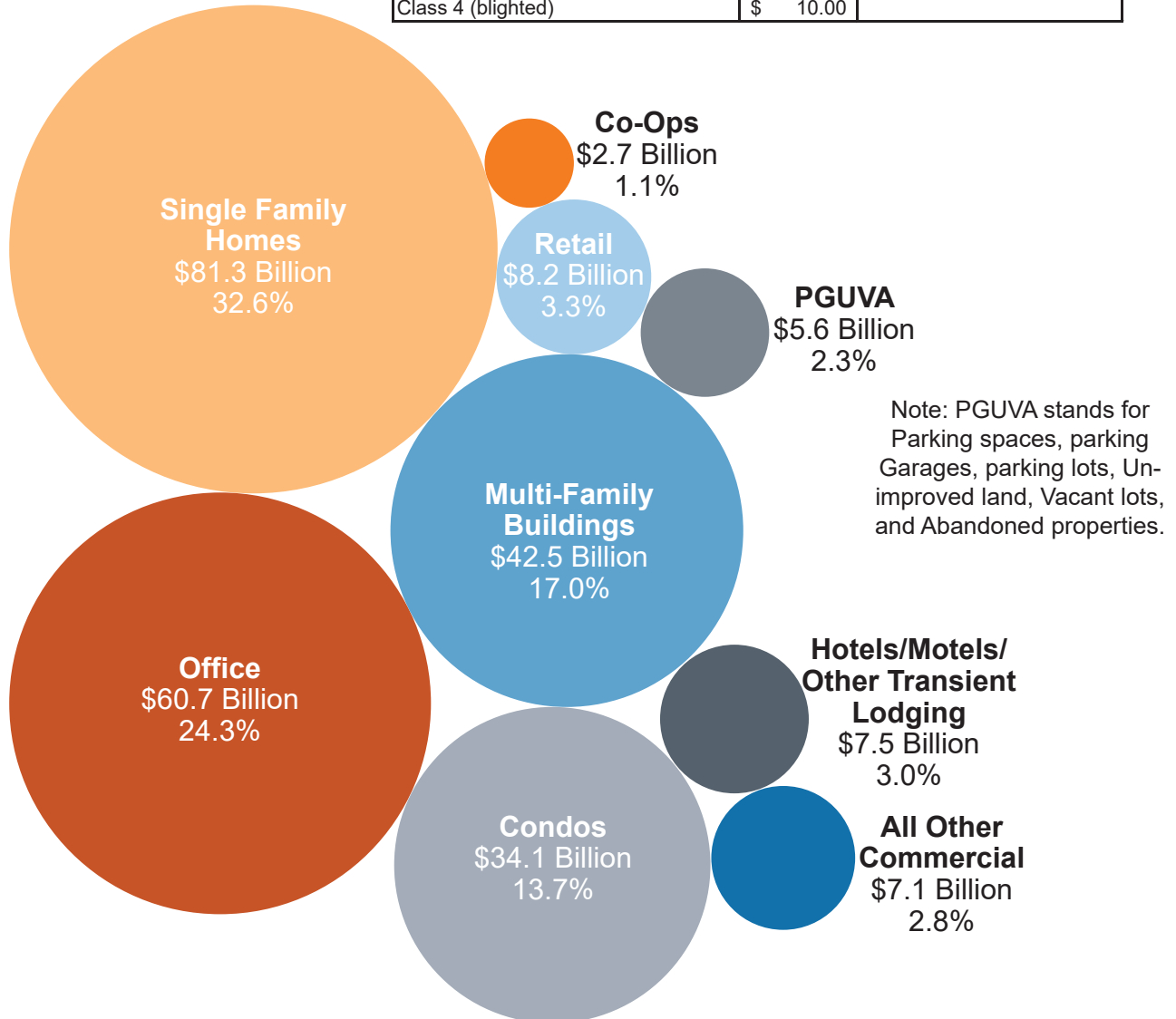
Fiscal Years 2022, 2023, and 2024 are used to describe the property tax chapter as it represents our latest data for the personal property, public space rental, and deed recordation and real property taxes, respectively.

Which Types of Properties are Taxable?

January 2024

The figure below shows the assessed value of each type of property subject to the property tax. The District of Columbia's Office of Tax and Revenue determines the value of each property. District-wide, the assessed value of taxable property is about \$249.7 billion as of January 2024.

Real Property Classifications	Nominal Tax Per \$100 Value	Description
Class 1 (residential)	\$ 0.85	
Class 2 (commercial)	\$ 1.65	If assessed value is not greater than \$5 million
Class 2 (commercial)	\$ 1.77	If assessed value is greater than \$5 million but not greater than \$10 million
Class 2 (commercial)	\$ 1.89	If assessed value is greater than \$10 million
Class 3 (vacant or unimproved land)	\$ 5.00	
Class 4 (blighted)	\$ 10.00	



Sample Annual Real Property Tax Bill

Square	Suffix	Lot	Property Address			Bill Year	Assessment	
0449		0049	1116 6th St NW			2024	\$788,220	
Description			Class	Tax	Penalty	Interest	Credit	Total
2024 First Half			1	\$3349.93	\$0.00	\$0.00	\$0.00	\$3349.93
2024 Second Half			1	\$3349.93	\$0.00	\$0.00	\$0.00	\$3349.93
Total				\$6,699.86	\$0.00	\$0.00	\$0.00	\$6,699.86
Amount Due by September 15, 2024								\$6,699.86

Additional Information

(Please see reverse side for important information)

- Real Property Tax is based on the Taxable Assessment of \$788,220 at a rate of \$0.85 per \$100. Estimated annual tax amount is \$6,699.86.
- 20% of your Tax Year 2024 Real Property Tax is used to pay the General Obligation Bonds debt service requirement.
- Our records indicate that the original tax bill was requested by your mortgage company on your behalf.
- Your real property is **NOT** receiving Homestead Deduction/Senior/Disabled Tax Relief or Disabled Veterans Homestead.

Deductions and Exemptions

These deductions can reduce the assessed value of a Class 1 owner-occupied residence (including condominiums) by \$78,700. Senior citizens and persons with disabilities get additional relief on their Class 1 owner-occupied residence as their annual assessment increase is capped at 2% instead of 10%, if they meet the income requirement.

Ad Valorem Tax

Taxes that are based on the value of property are called ad valorem taxes. This rate is usually changed during the budget process by majority vote from the DC Council.

Assessment Market Value

Each year, OTR's assessors determine each property's value, which includes the value of both land and buildings. Two types of values are assessed: market value and taxable value. The choice of assessment method depends on the type of property. For income-generating properties, such as office buildings or apartment buildings, the method is the net income approach: assessment is determined by dividing net operating income by a cap rate. For single-family properties, assessment is made using computer assisted mass appraisal or CAMA.

Across the District, the market value for single-family homes increased by an average of 4.6 percent annually over the past five years (FY 2019-2024). For multi-family residential properties, the average annual increase is 5.4 percent, and for commercial properties it is -0.7 percent.

The reason for the negative assessment growth in commercial properties is the slowdown in growth in FY 2021 and negative growth in FY 2022 for office and hotel properties due to the COVID-19 pandemic. Commercial properties and non-homestead residential properties (not occupied by the owner) are taxed at market value.

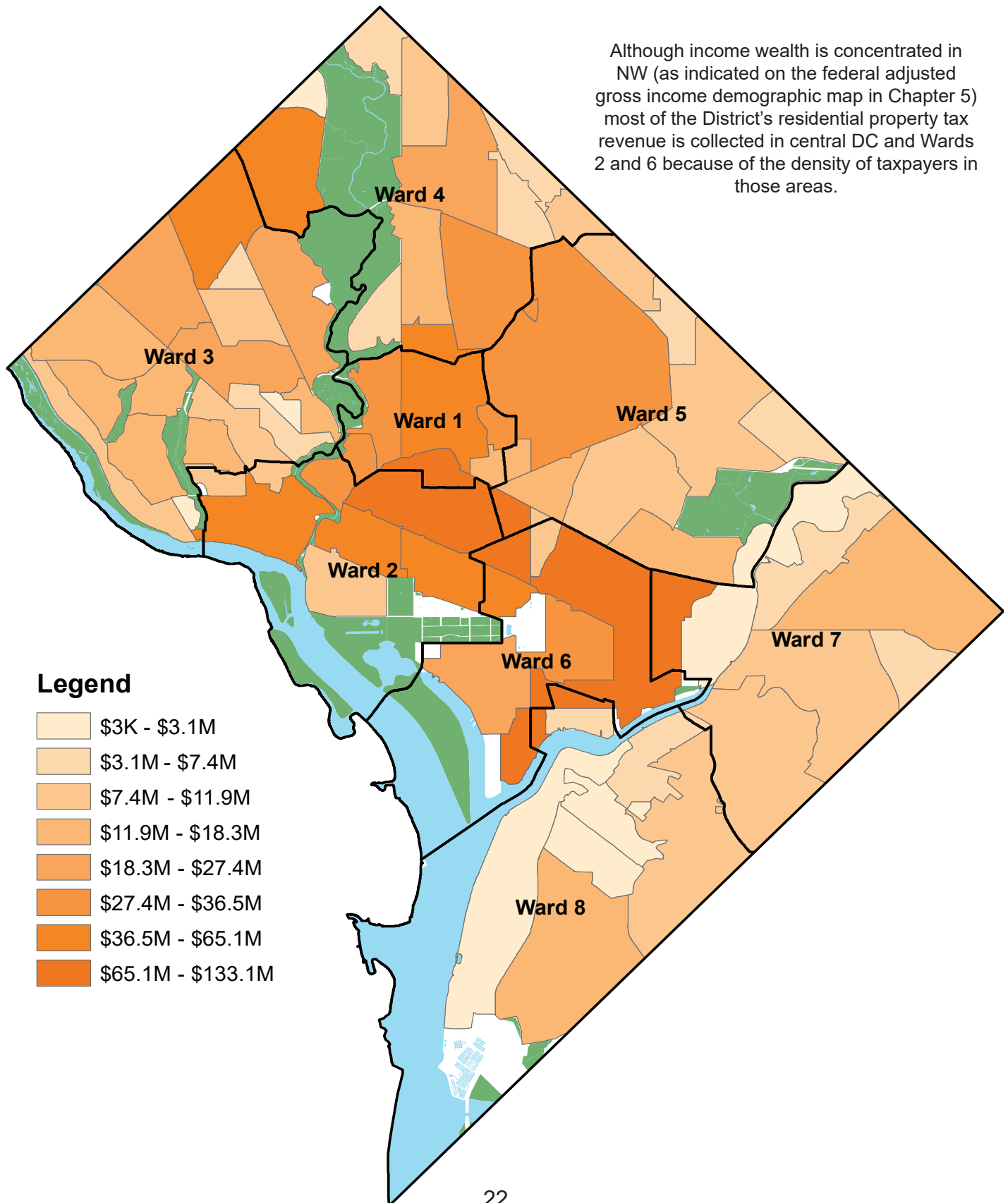
Owner-occupied residential properties are sometimes taxed at a lower value, as the annual increase in taxable assessment is capped for these properties. When such a property is sold, however, it will be taxed at market value the year of the purchase.

Total Payment

The Office of Tax and Revenue (OTR) divides property owners' total tax bill into two payments. The first payment is due by March 31st and the second payment is due by September 15th. Many homeowners pay their property taxes as part of their monthly mortgage and their mortgage servicer pays OTR on the homeowners' behalf.

Tax Revenue Collected from Residential Properties is Concentrated in Central DC

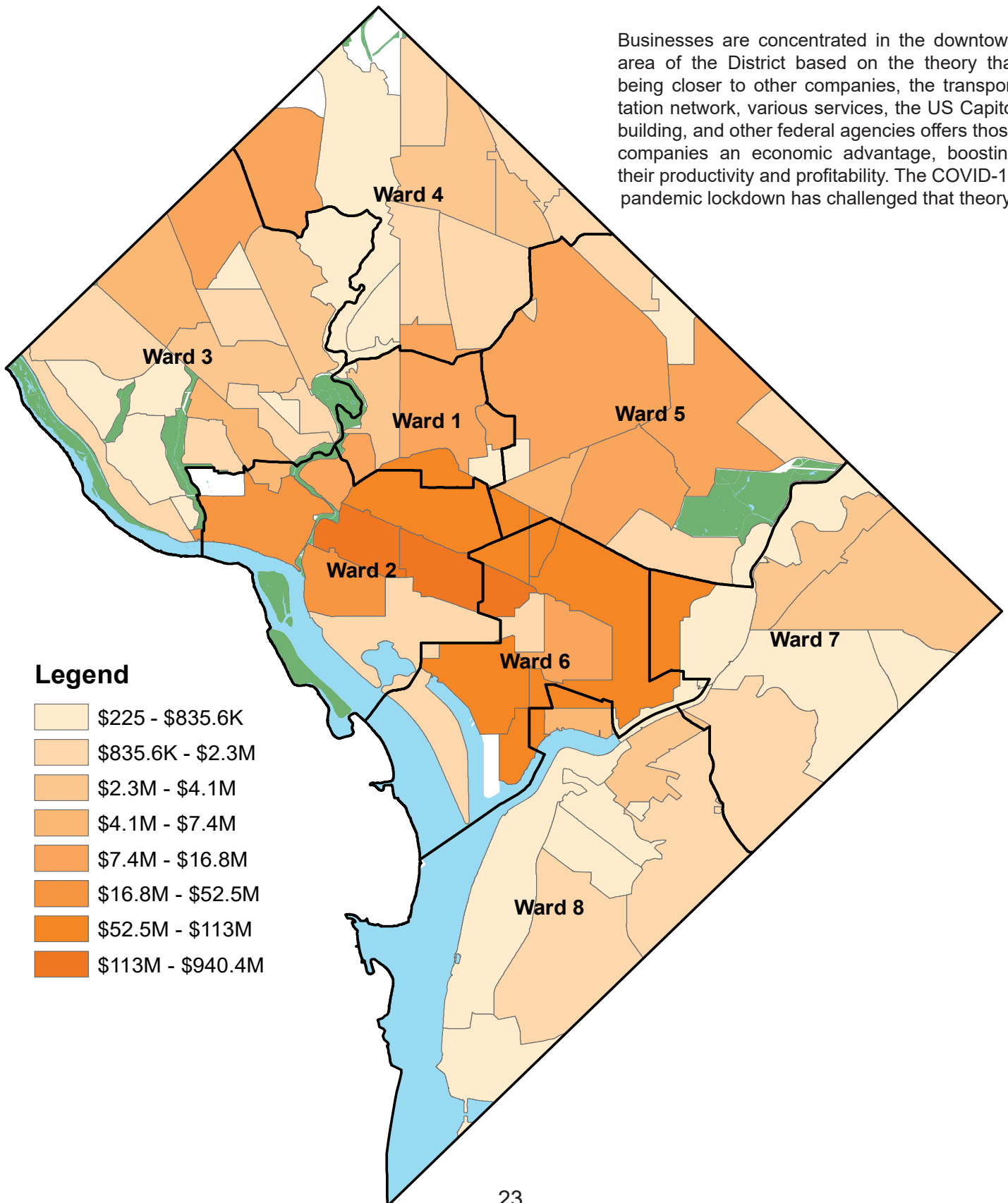
Total Dollar Amounts by Assessment Neighborhood, FY 2024



Commercial Property Tax Collections Are Concentrated in Central DC As Well

Total Dollar Amounts by Assessment Neighborhood, FY 2024

Businesses are concentrated in the downtown area of the District based on the theory that being closer to other companies, the transportation network, various services, the US Capitol building, and other federal agencies offers those companies an economic advantage, boosting their productivity and profitability. The COVID-19 pandemic lockdown has challenged that theory.

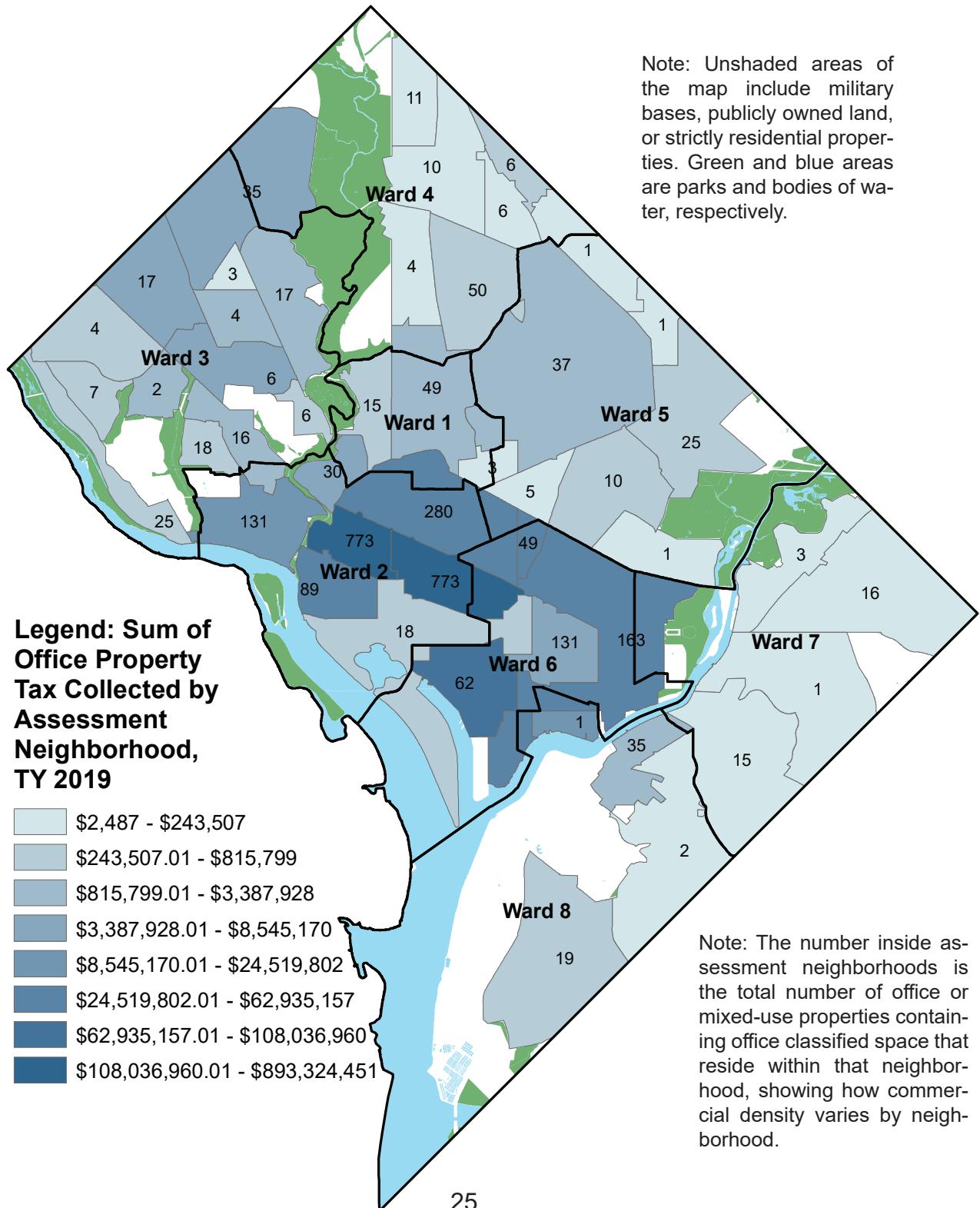


Spotlighting A Trend, A Tax Source In Transition: Taxable Office Properties

Not since FY 2006 has the property tax not been DC's leading source of tax revenue in terms of inflation-adjusted dollars; see page 37 of this report. Commercial properties have generated the lion's share for this category (see page 5), specifically office or mixed-use with office space properties, garnering 71 and 68 percent of commercial property tax collected in TY 2019 and 2024, respectively. Recent signs of market adjustments are coming to fruition for DC's commercial properties' assessed values, subsequently affecting its taxation. Since the start of the COVID-19 pandemic lockdown, firms have had time to plan for their office space needs, which have changed due mainly to accepted hybrid or remote work models, decreasing their need to lease more office space, which has, in turn, increased vacant space in office buildings, affecting these buildings' income generating value. This increased lack of demand for office space has contributed to these buildings' recent diminished sales price, frequency of sale, and assessed value in terms of deed and commercial property tax collections. The following few pages describe this trend in taxable office property tax collections.

How much did Taxable Office Buildings Contribute to Commercial Property Tax Collections in TY 2019?

The next two maps show how much, how many, and where taxable office properties contributed the most to property tax collections. Each map presents a first glimpse into the before and after effect hybrid or remote work has had on office buildings in each assessment neighborhood. For example, Central A and B (combined) in Wards 2 and 6 (the parallelogram shaped neighborhood above the national mall), had the largest share of commercial property tax collected for offices at 68.3 percent of the total amount collected in TY 2019.

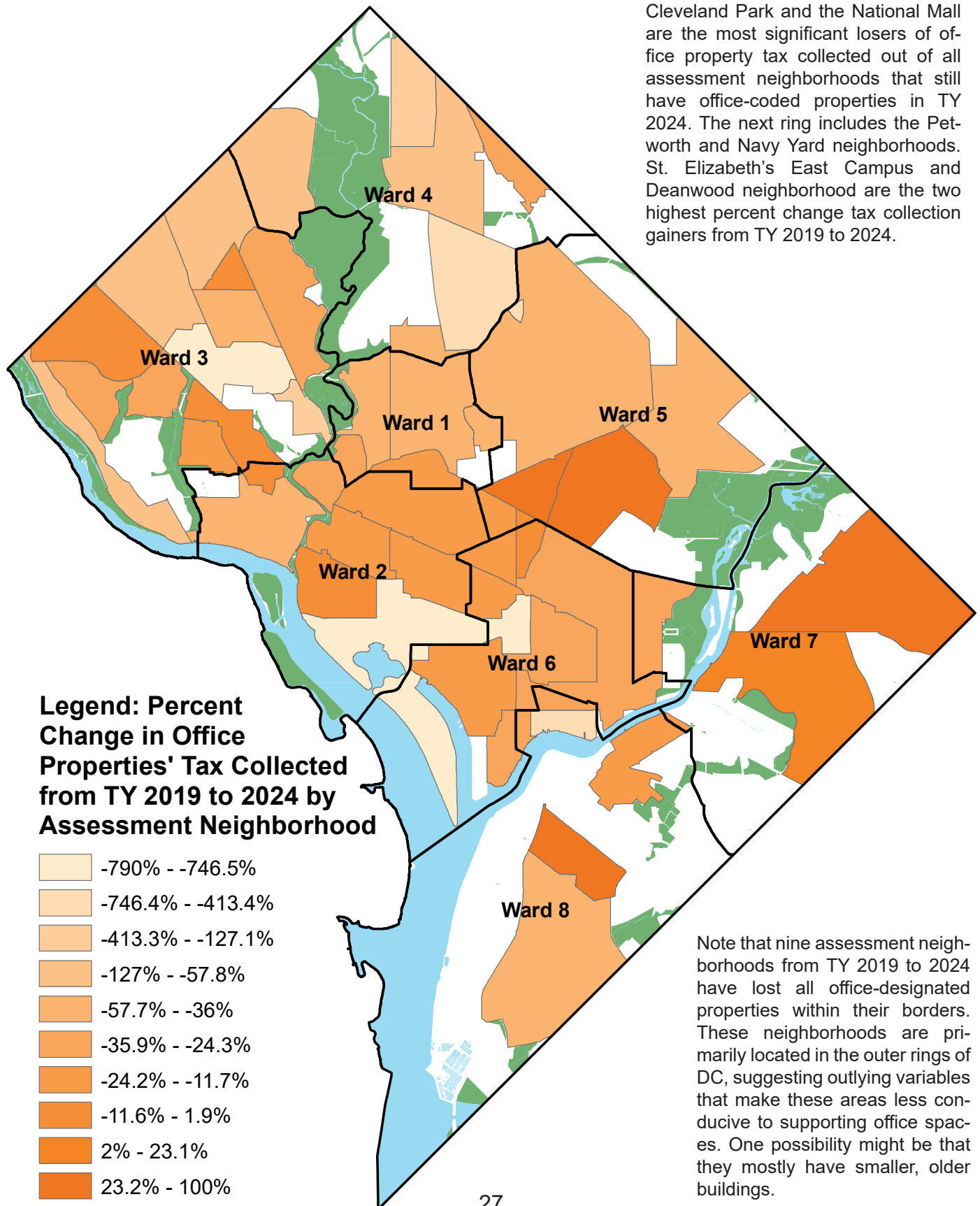


The total number of office buildings or properties with office space went down by 693, and the subsequent tax collected went down by \$160.2 million. Overall, in TY 2024, 49.6 percent of all offices resided in the Central assessment neighborhood, and 69.7 percent of this property type's tax collected also came from there. A significant reason for this reduction in the number and dollar amount is the drop in assessed value for these properties, mainly from prolonged high levels of vacant office space.

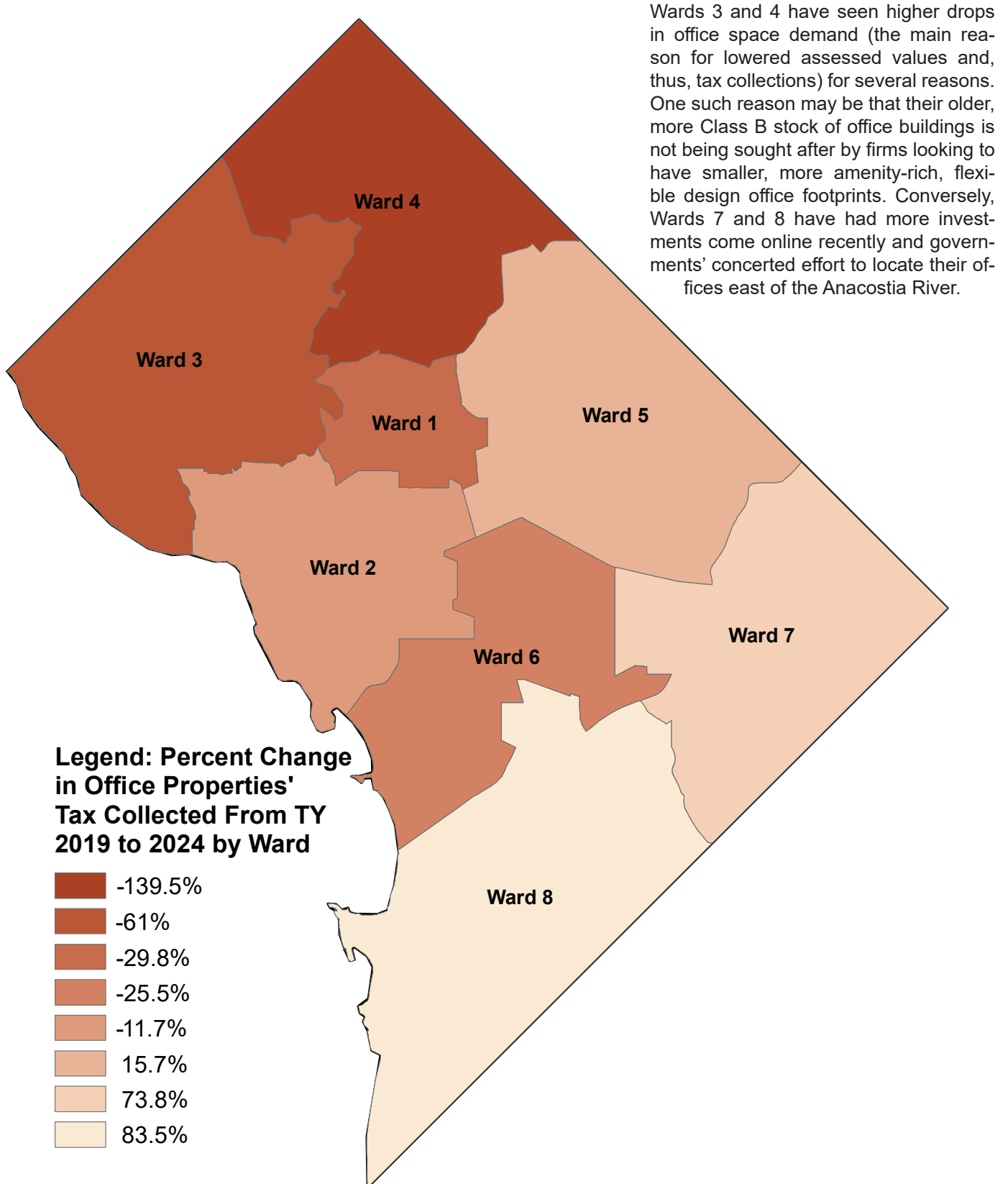


Where is the Reduction in Office Property Tax Collected Coming from by Assessment Neighborhood?

Cleveland Park and the National Mall are the most significant losers of office property tax collected out of all assessment neighborhoods that still have office-coded properties in TY 2024. The next ring includes the Petworth and Navy Yard neighborhoods. St. Elizabeth's East Campus and Deanwood neighborhood are the two highest percent change tax collection gainers from TY 2019 to 2024.



Where is the Reduction in Office Property Tax Collected Coming from by Ward?



Where the Reduction in Office Property Tax Collected are Coming from by the Numbers

Across all Wards, office properties have been reduced in number, and although Ward 2 has lost much-assessed value in terms of dollar amount, it is still the most prominent and steadiest place for these properties to reside from TY 2019 to 2024

Ward	Change in the Number of Properties from TY 2019-2024	Assessed Value			Real Property Tax		
		Change in Assessed Value	Percent Change	Change in Average Assessed Value	Change in Real Property Taxes Paid	Percent Change	Change in Average Real Property Taxes Paid
1	-74	-\$139,005,652	-33.5%	\$3,703,383	-\$2,214,503	-29.8%	\$68,463
2	-203	-\$5,250,304,690	-11.6%	\$3,336,259	-\$97,626,481	-11.7%	\$61,535
3	-34	-\$595,883,838	-61.7%	-\$2,094,333	-\$9,997,052	-61.0%	-\$34,860
4	-85	-\$84,173,129	-152.4%	\$4,655,482	-\$1,387,801	-139.5%	\$85,209
5	-66	\$44,203,274	10.0%	\$14,789,126	\$1,284,552	15.7%	\$278,944
6	-179	-\$3,494,996,488	-24.5%	\$12,657,350	-\$66,460,776	-25.5%	\$225,085
7	-32	\$71,348,224	74.9%	\$4,085,073	\$1,114,103	73.8%	\$64,397
8	-20	\$821,285,650	83.2%	\$40,918,750	\$15,079,390	83.5%	\$749,958
Total	-693	-\$8,627,526,649	-13.8%	\$41,019,296	-\$160,208,568	-14.0%	\$755,910

Both large and small sized taxable commercial office buildings in DC have had reductions in assessed values and taxes paid from TY 2019 to 2024

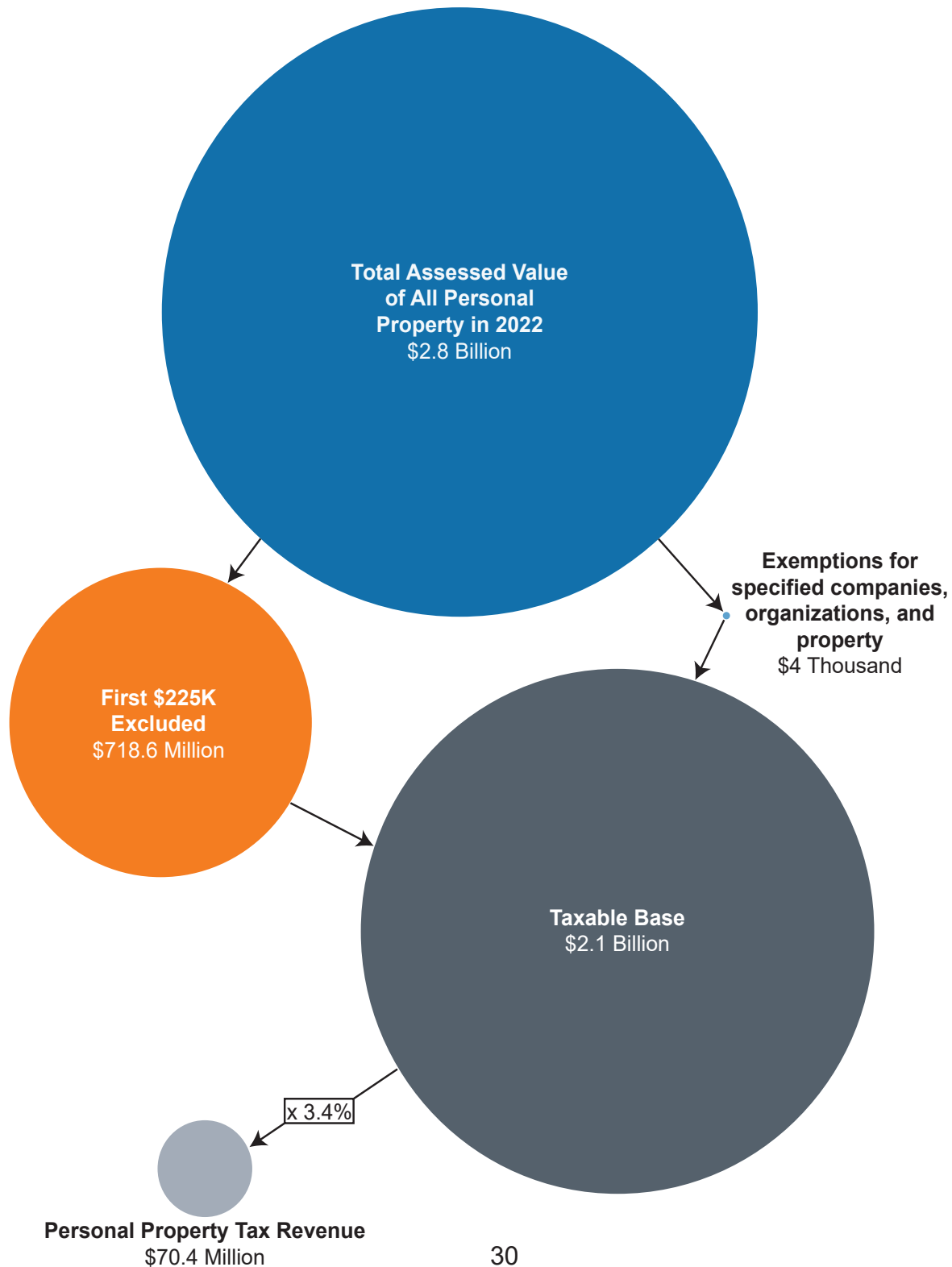
Property Type	Reduction in the Number of Properties from TY 2019-2024	Percent of Change	Reduction in Assessed Value	Percent of Change	Change in Average Assessed Value	Reduction in Real Property Tax Paid	Percent of Change	Change in Average Real Property Tax Paid
Small Office	-416	-148.6%	-\$821,248,967	-84.0%	\$906,926	-\$14,618,388	-91.1%	\$13,258
Large Office	-21	-3.1%	-\$7,054,999,065	-11.9%	-\$7,402,654	-\$133,236,543	-12.2%	-\$140,783
Office-Condominium (Horizontal)	-17	-18.5%	-\$939,999	-1.9%	-\$6,004,680	-\$29,231	-3.5%	-\$33,570
Office-Condominium (Vertical)	-5	-2.9%	-\$216,467,123	-19.9%	\$76,959	-\$4,131,043	-20.6%	\$1,149
Commercial-Office (Condominium)	-21	-8.7%	-\$118,586,871	-19.2%	-\$1,029,884	-\$2,186,522	-19.7%	-\$19,771
Commercial-Office (Miscellaneous)	-213	-507.1%	-\$415,284,624	-106.6%	-\$247,156	-\$6,006,841	-113.8%	-\$4,651
Total	-693	-46%	-\$8,627,526,649	-69%	\$6,121,173	-\$160,208,568	-14%	\$81,382

From TY 2019 to 2024, each office property type has lost multiple properties. This suggests that many property owners have elected to demolish, redevelop or reclassify their properties, especially those on the smaller or lower end of the assessed value spectrum. Furthermore, all office property types have seen reduced assessed values, suggesting a right sizing based on difficult market conditions.

Personal Property Tax

TY 2022

The District levies a tax of \$3.40 for every \$100 of assessed value after the exemption of the first \$225K of taxable value of personal property owned by businesses. Personal property includes machinery, equipment, furniture, fixtures, unregistered motor vehicles and trailers, or reference materials like books and DVDs. Certain types of companies, organizations, and properties are exempted from this tax such as qualified supermarkets (for 10 years), non-profits, wireless telecom firms, systems using solar energy, cogeneration systems, certain software, or public utility providers.



Public Space Rental Tax

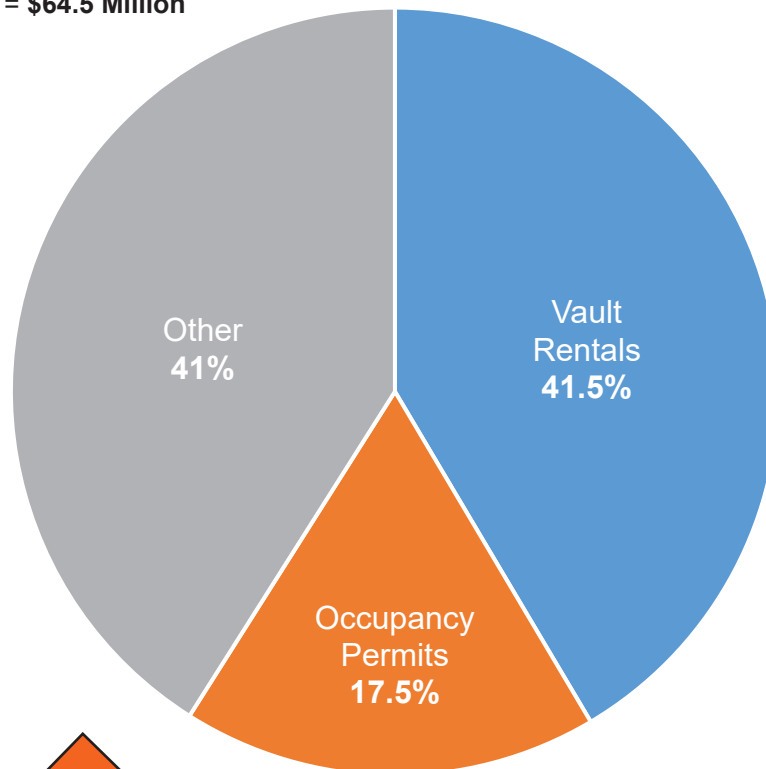
The District allows businesses to rent and occupy publicly-owned property for their commercial use between their property line and the street. Uses include enclosed or unenclosed sidewalk cafes, flower and fruit stands, construction work, or even the space beneath the surface (also known as a "vault") for facilities like fuel tanks. Farmer's markets are exempted from the fee if they participate in the Supplemental Nutritional Assistance Program and the Women, Infants and Children Farmers Market Nutrition Program.

Public Space Rental Tax Collected, FY 2023

Total = **\$64.5 Million**

Other includes:

Bike share advertisement revenue, general bike share revenue, bus shelter ads, reservation of public curve space, public inconvenience fees, public space inspection fees, sidewalk cafes, and rental of public space surfaces.



Note: The Mayor allowed food establishments to rent public space free of charge during the COVID-19 pandemic via a temporary sidewalk table service permit. That permit expired on May 31, 2023 and all existing permittees needed to obtain a sidewalk cafe permit prior to June 1, 2023 to keep operating. This affected the other revenue source in the pie chart above.

Example Calculation (rate charges differ by type of public space):

\$3.60 (total due annually) = **\$5 or \$10/sq. ft.** (assessed value of the land) x **30 sq. ft.** (amount of space used) x **1.2%** (utilization factor)

Deed Recordation and Transfer Taxes

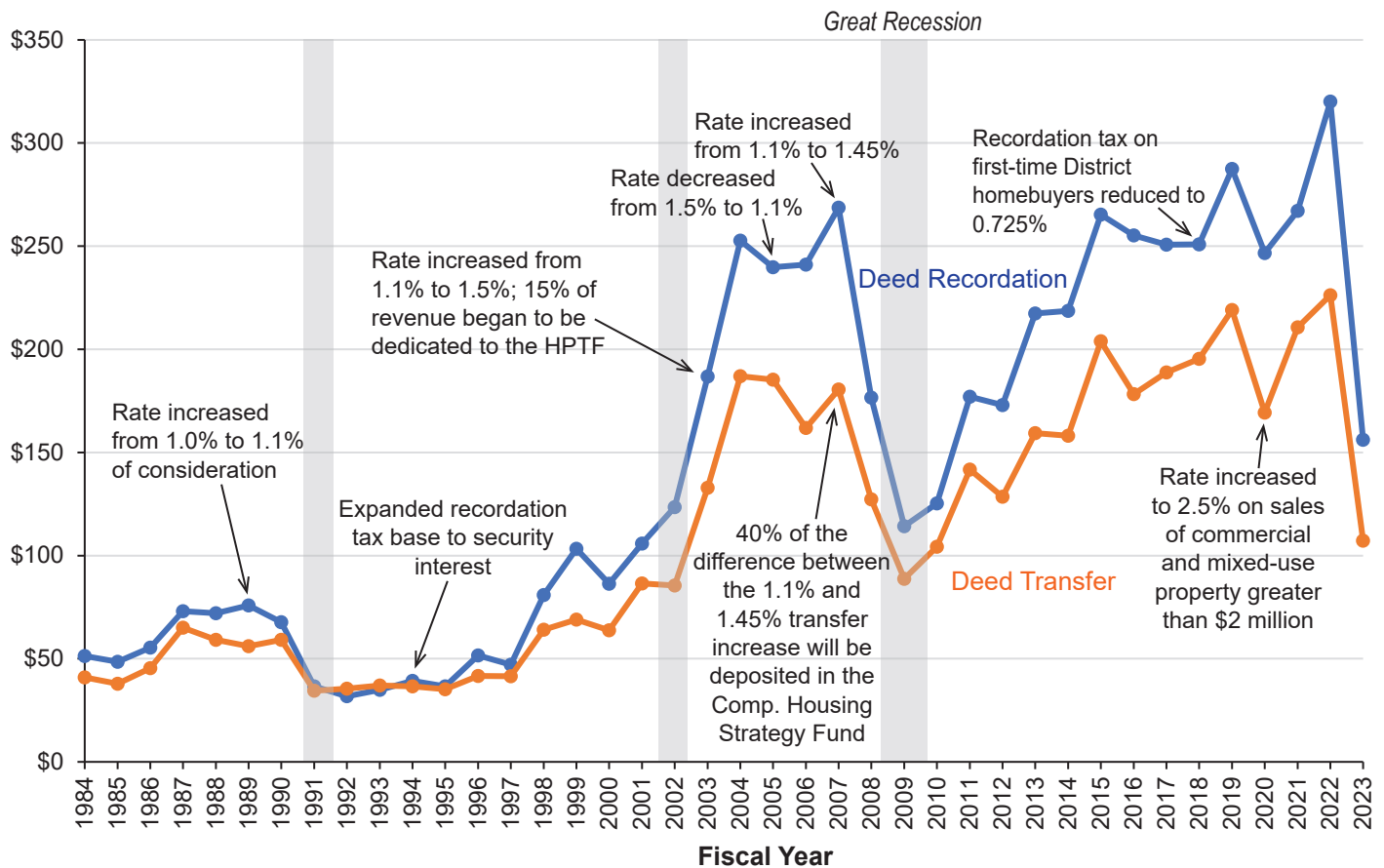
When a person or entity buys real property in the District they are not rightful owners until they are given an official written document or deed. To acquire a deed one must submit the proper forms to the OTR to be officially recorded as owner and pay a percentage on the value of consideration given for the property or the fair market value of the property as the recordation tax. In addition, the transfer tax is imposed on the seller or transferrer of real property at the time the deed is submitted for recordation and is paid as a percentage of the consideration or fair market value. Fifteen percent of the District's real estate transfer and recordation taxes are dedicated to the Housing Production Trust Fund and the rest goes to the District's Local Fund.



The deed recordation tax is not only required when someone buys property, it is also required when commercial property owners refinance their property's mortgage which partially explains the higher revenue trend.

History of Deed Taxes in DC

Taxes Collected Annually in 2017 Dollars, In Millions



Note that on October 1, 2023, the 2.5 percent tax rate on transfers of commercial and mixed-use properties with fair market values greater than \$2 million expired and returned to 1.45 percent for all properties with values greater than \$400,000.

Chapter 3

Sales & Excise Taxes

Sales and Excise Taxes

The District government levies a tax on retail sales of tangible personal property. This tax -- called sales and use tax (hereafter, sales tax) -- is a significant source of tax revenue. In this chapter, we draw distinctions between the products and services that are subject to this tax and those that are not. We also provide information on all sales tax rates, the excise tax, and the historic distribution of sales tax revenue to the District's dedicated funds. Although sales taxes are collected monthly from sellers, the tax year for sales taxes reflects the fiscal year which starts on October 1st and ends on September 30th. FY 2022 and 2023 are used to describe the sales and excise tax chapter as they represent the latest available data for the various taxes.

What is the Sales Tax?

FY 2023

The sales tax is imposed on all tangible personal property sold or rented at retail in the District and on certain selected services. (Tangible refers to physical materials and personal property is movable from one place to another.) The graphic below compares the amount of tax collected in Fiscal Year 2023 with the amount of taxes that are forgone due to exemptions. The icons show major categories of taxable sales and exemptions.

Sales Tax Collected: \$1.9 Billion Taxable Sales: \$23.5 Billion



Transient accommodations at a 15.95% rate



Restaurants at a 10% per purchase rate



Alcohol bought at stores at a 10% rate



Medical marijuana at a 6% rate



Retail and certain selected services at a 6% rate



Parking in commercial lots at a 18% rate



Rental Vehicles at a 10.25% rate



Soft drinks at a 8% rate

Exempted Goods or Items: \$690 Million in Revenue Forgone (estimate)



Medicines, pharmaceuticals, and medical devices



Groceries, feminine hygiene products, and diapers/incontinence pads



Sales to the Federal and D.C. Governments, Semi-Public Institutions, and Non-Profits



Energy Products Used in Manufacturing



Electric Motor Vehicle Excise Tax

Exempted Services: \$581.9 Million in Revenue Forgone (estimate)



Internet Access Services



Transportation and Communications Services



Valet Parking Services

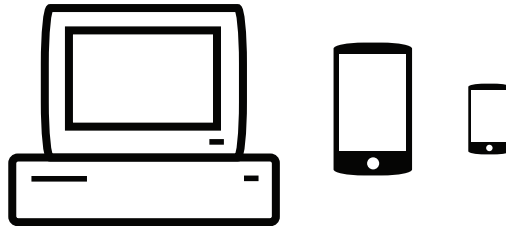


Professional, Insurance, or certain Personal Services

What is the Use Tax?

FY 2023

The use tax is imposed at the same rate as the retail tax (6 percent) on personal property sold or purchased outside the District and then brought into the District to be used, stored, or consumed. Vendors with nexus (that is, having a physical presence or substantial sales) in the District are required to collect and pay the use tax. The total amount of use tax collected in Fiscal Year 2023 is captured in the sales tax amount. Below is a graphic of the most common medium subject to the use tax.

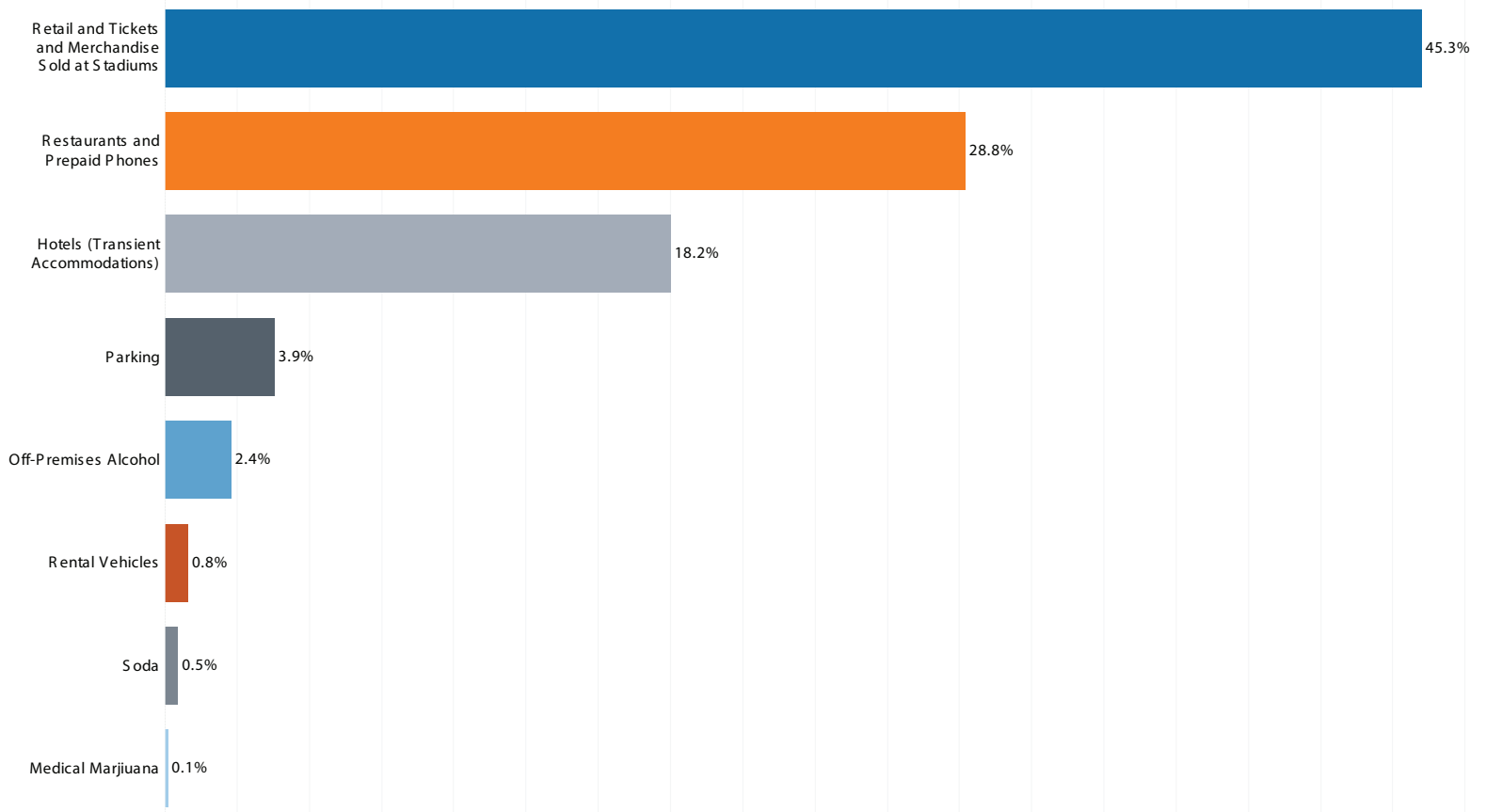


e-commerce or purchases made over the internet are taxed at a 6% rate

Note: Remote sellers (e.g. businesses with no physical presence in the District) are now taxed as of June 2018. Fewer sales transactions evade taxation due to the South Dakota v. Wayfair, Inc. U.S. Supreme Court decision.

Where Is Sales and Use Tax Collected?

Share of Sales Tax Collected by Business Type, FY 2023



Totals for Dedicated Transfers of Sales Tax Revenue

The flow chart below shows the trends of where and how much sales tax revenue were distributed to the District's dedicated funds such as the Convention Center, Washington Metropolitan Area Transit Authority, and a variety of other legislatively mandated funds from Fiscal Year 2000 to 2023. The District's Local Fund is not included in the flow chart below, however, \$1.4 billion was transferred to the Local Fund in FY 2023.

Revenue Transferred from FY 2000-2023, in Millions

Ballpark Fund: \$15.8 Million in FY23 -

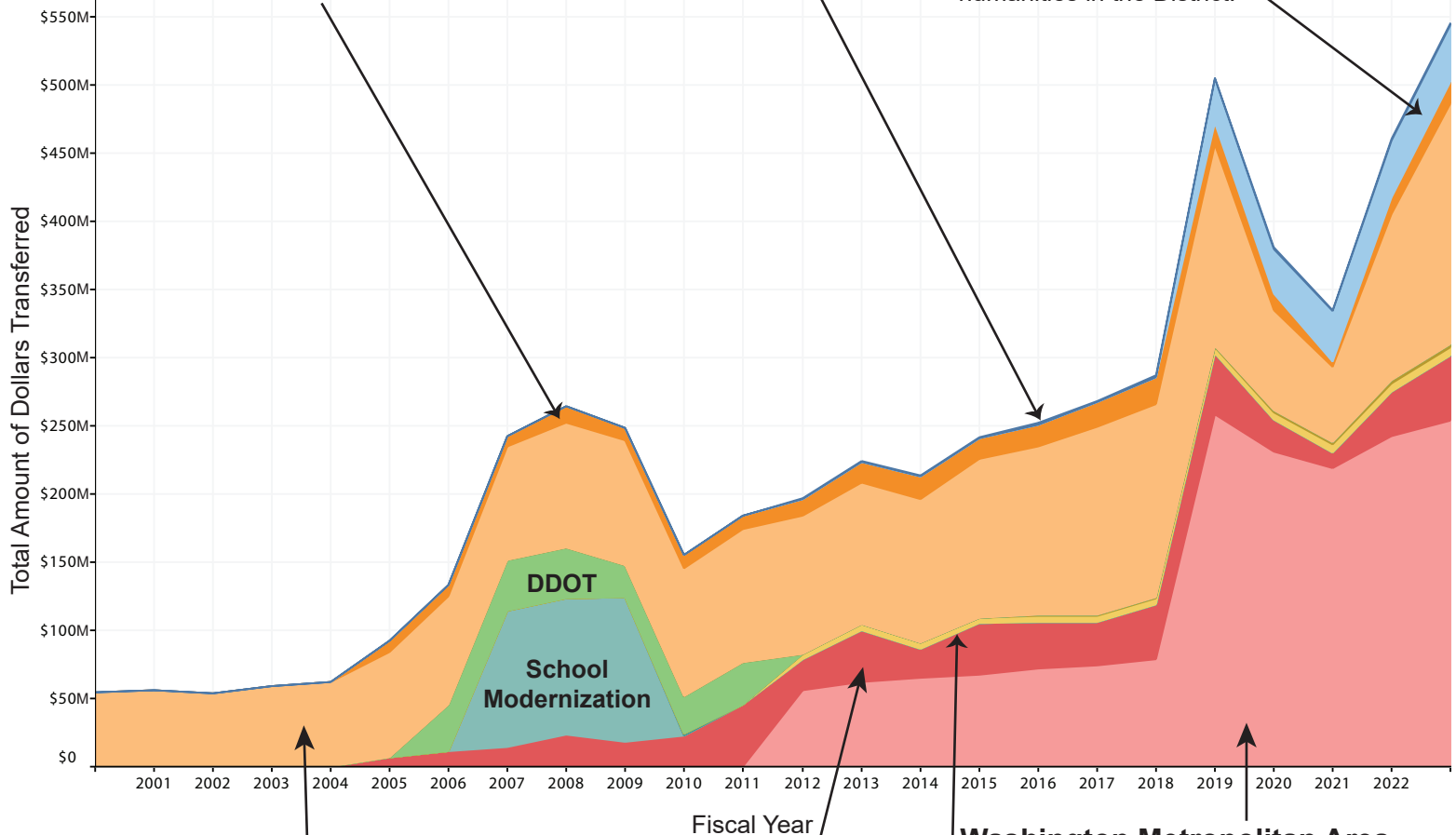
From sales taxes related to the baseball stadium to help pay the debt service on the stadium's revenue bonds.

Alcoholic Beverage and Cannabis Administration: \$1.2 Million in FY23 -

From the total sales tax to fund the Reimbursable Detail Subsidy Program in ABCA.

Commission on the Arts and Humanities: \$42.2 Million in FY23

- From the general retail sales tax to provide funding for the commission to develop and promote the arts and humanities in the District.



Convention Center: \$176.8 Million in FY23 -

From the hotel, restaurant, and rental vehicle sales taxes for payments towards debt service, reserve funds, repairs, marketing, etc. incurred by Events DC (operator of the Convention Center).

Healthy DC & Health Care Expansion Fund (Gold Bronze): \$2.2 Million in FY23 -

From the medical marijuana sales tax to provide affordable health benefits to eligible individuals.

Tax Increment Financing/ Payment in Lieu of Taxes: \$47.7 Million in FY23 -

To pay back bonds issued to help finance certain economic development projects.

Washington Metropolitan Area Transit Authority: \$254.2 Million in FY23 -

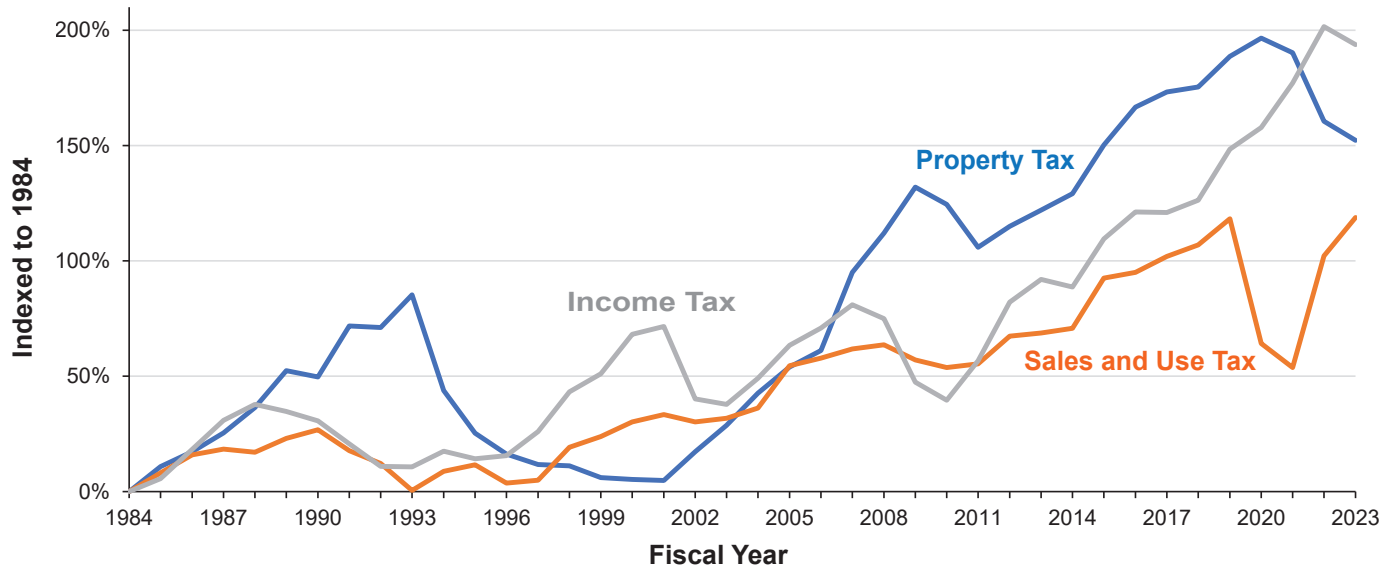
From the parking tax and total sales tax to support DC's WMATA funding responsibility including DC's contribution to WMATA's Capital fund.

Healthy Schools: \$5.7 Million in FY23 -

From the general sales tax to provide additional funding for healthier school meals, etc.

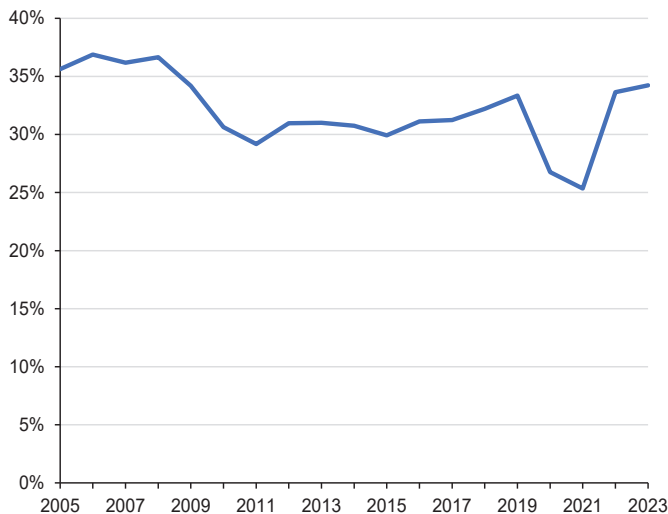
Post FY 2019 Sales Tax revenue growth has rebounded since the COVID-19 pandemic lockdown, while the Income Tax continued to grow (plateauing in 2022) and Commercial Property Tax losses have majorly contributed to the Property Tax's downturn

Total Percent Change Since FY 1984, FY 2017 Dollars



Taxable sales have rapidly increased as a share of the economy after the first two years of the COVID-19 pandemic, a trend not seen since this data began to be recorded...

Taxable Sales as a Share of Personal Income

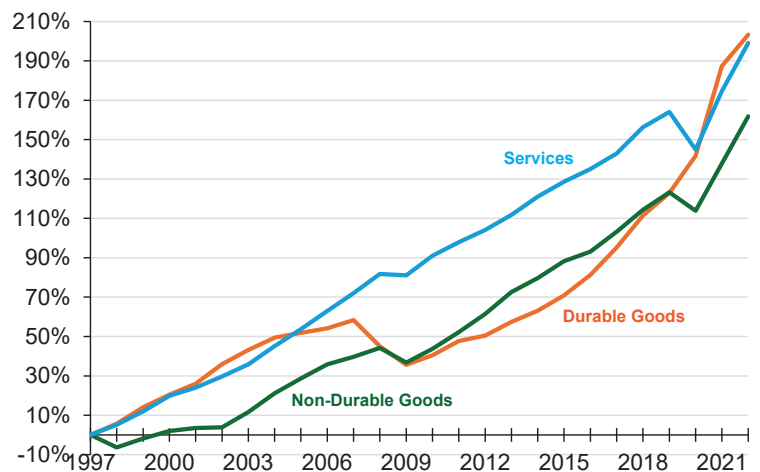


Note: Taxable sales include items under the retail, soda, alcohol, restaurants, rental vehicles, parking, hotels, and medical marijuana categories.

Personal Income Data Source: U.S. Department Of Commerce, Bureau of Economic Analysis (www.bea.gov/data).

...Because spending on services have continued to sharply bounce back since the COVID-19 pandemic shifted consumption habits in 2020.

Total Percent Change in Personal Spending



Personal Consumption Expenditure Data Source: U.S. Dept. Of Commerce, Bureau of Economic Analysis (www.bea.gov/data).

What are the Excise Taxes?

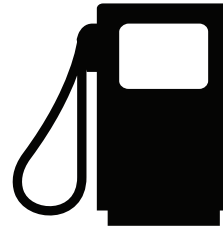
FY 2023

Excise taxes are narrowly based taxes on consumption, levied on specific goods or activities such as gasoline. Excise taxes are often levied at a per unit of a product basis and are frequently included in the price of the product, and are usually less visible to consumers. The graphic below shows the total amount of excise tax collected in Fiscal Year 2023 with icons depicting the major categories of goods subject to the excise tax in the District.

Excise Tax Collected: \$89.9 Million



Motor Vehicle excise tax is based on a vehicle's weight class and its fuel efficiency (see page 40). Tax rates range from 1-10.1% for motor vehicles or trailers but electric vehicles and motor vehicles or trailers in certain circumstances are exempt from this tax.

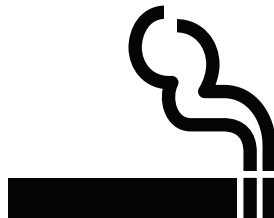


Motor Vehicle Fuel is taxed at rate of 23.5¢ per gallon of regular unleaded gasoline with an additional surcharge of 10.7¢ per gallon.



Wholesale of Alcoholic Beverages in the District
vary in tax rate:

Beer -- \$2.79 per 31 gallon barrel
Light wine (>14% alcohol) -- 30¢ per gal
Heavy wine (<14% alcohol) -- 40¢ per gal
Champagne/sparkling wine -- 45¢ per gal
Spirits -- \$1.50 per gal



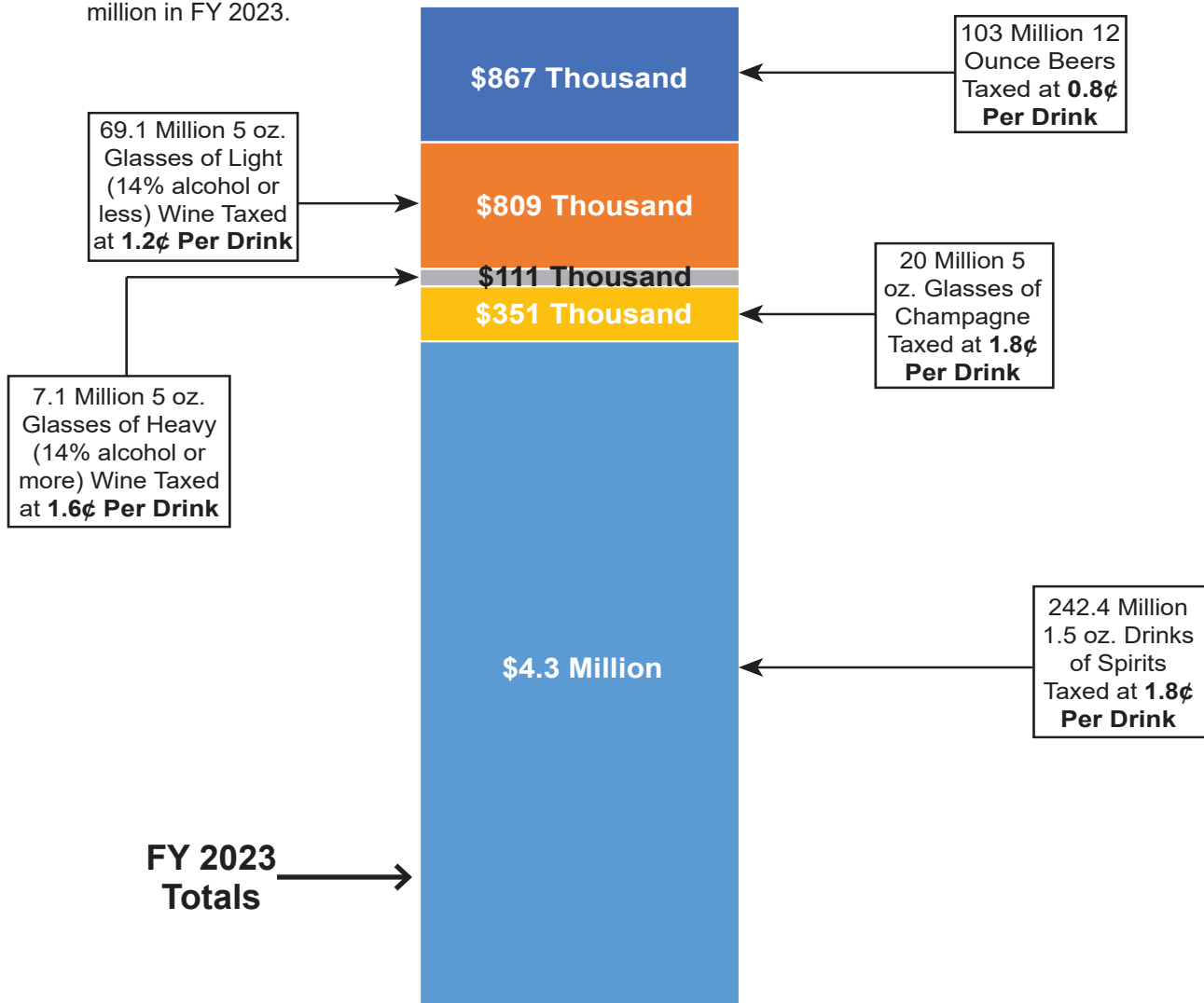
Cigarettes purchased in a pack of 20 or fewer and Little Cigars weighing less than 4.5 lbs per thousand are taxed at \$4.50/pack plus a 52¢/pack surtax in lieu of a retail sales tax equaling \$5.02 per pack.



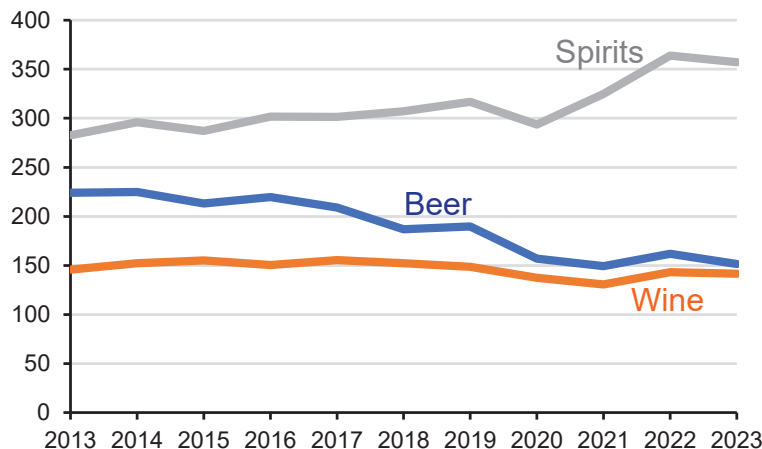
Other Tobacco Products including Vapor products like e-Cigarettes, etc. are taxed at 79% of the average wholesale price of a pack of 20 cigarettes.

Alcoholic Beverage Tax

The District levies an excise tax on alcoholic beverages. The tax is levied on distributors (such as wholesalers) based on the volume and type of beverage sold. Revenue from this tax is deposited into the District's Local Fund, which funds services such as education, health and social services, and criminal justice programs. Revenue from the tax, excluding penalty and interest, totaled \$6.4 million in FY 2023.



Alcohol Consumption Trend
Annual Drinks Per Capita



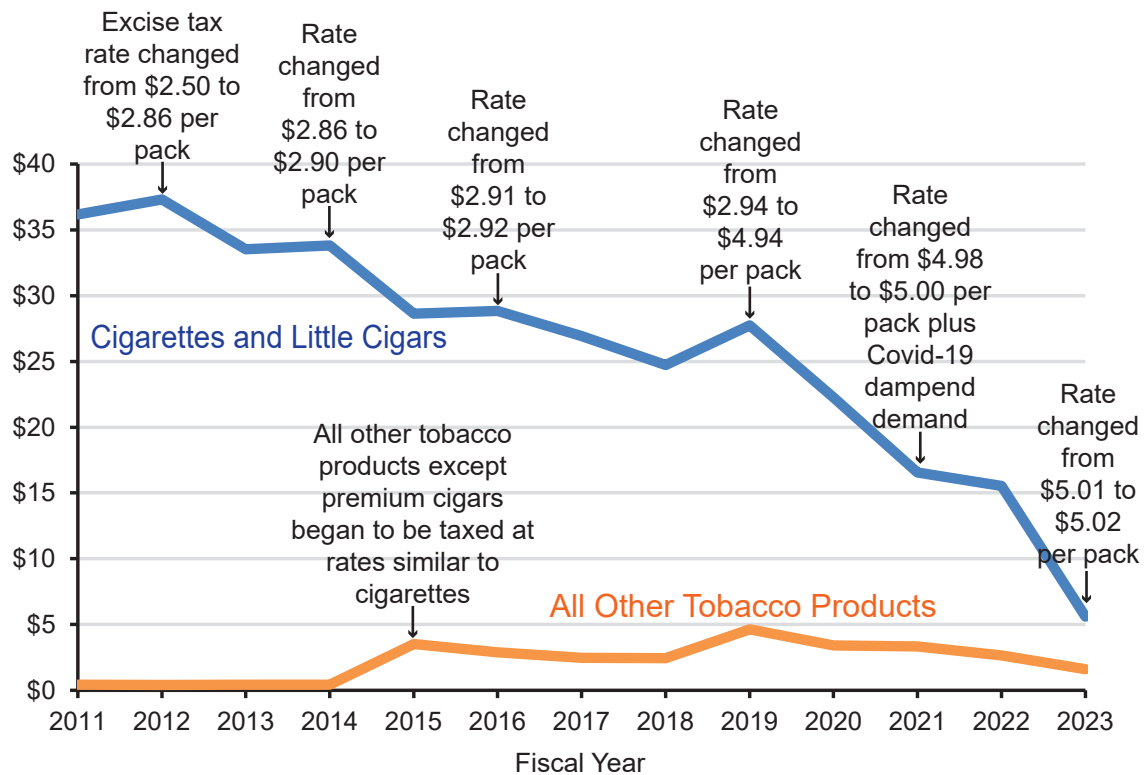
Note: Alcohol consumption decreased in 2020, likely due in part to the decline in the number of residents visiting bars and restaurants during the Covid-19 Pandemic.

Tobacco Taxes

The District levies excise taxes on tobacco products except if sold to the military or Congress. The taxes are levied on distributors (such as wholesalers). Cigarettes are taxed on a per-cigarette basis and little cigars by weight. In FY 2023, the tax rate was equivalent to \$5.02 per pack of 20 cigarettes which includes a \$4.50 excise tax and a 52 cent surtax in lieu of a retail sales tax. Tax levies for all other tobacco products, such as snuff and e-cigarettes but not including premium cigars, are set as a percent (79%) of the average wholesale price. That average wholesale price per pack of 20 cigarettes was \$6.34 as of 2021. All revenue from this tax is deposited into the District's Local Fund.

Tobacco Tax Revenues Have Decreased Due in Part by the Rate Changes and User Preference

FY 2017 Dollars, In Millions

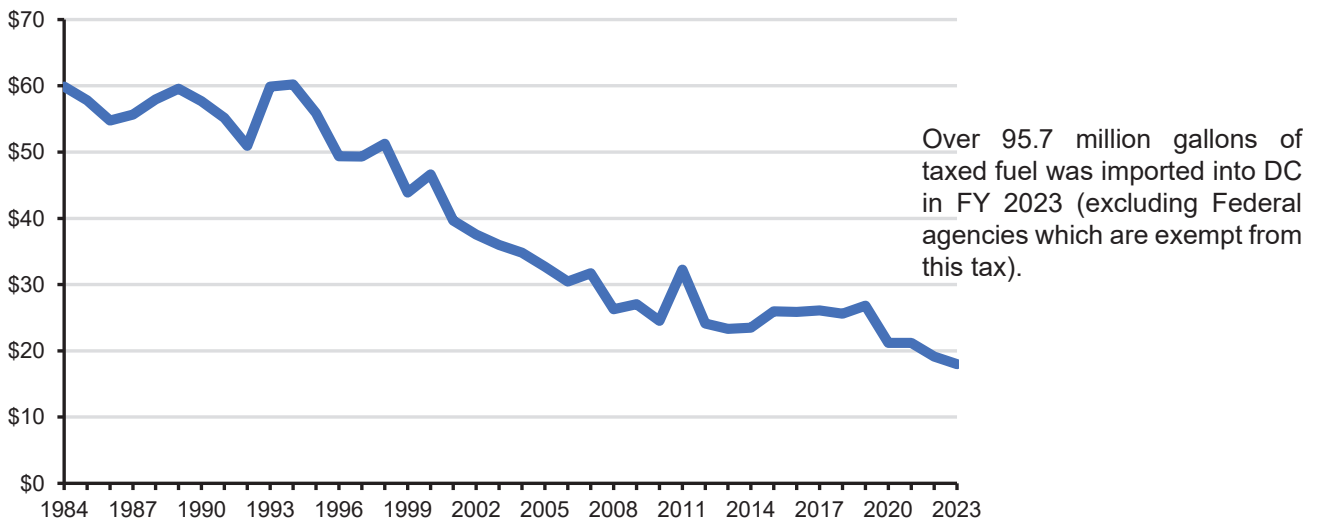


Motor Vehicle Fuel Tax

The District levies one excise tax on all transportation fuels, i.e. gasoline, diesel, benzene, etc. Prior to FY 2021, this tax was levied at the wholesale level, equal to 8 percent of the average price of a gallon of regular unleaded gasoline. This average price was determined by the District and published twice a year, there was a floor on the wholesale price which was \$2.94. After FY 2021 and presently the tax is a flat \$0.235 per gallon. This tax is collected from distributors when they move the fuel into the District. All the revenue from this tax is deposited into the Highway Trust Fund. In FY 2023, a surcharge of \$0.107 per gallon is added to the tax and is adjusted annually by a cost-of-living index. Revenues from this surcharge are transferred to the Capital Improvements Program to fund the renovation, repair, and maintenance of local transportation infrastructure.

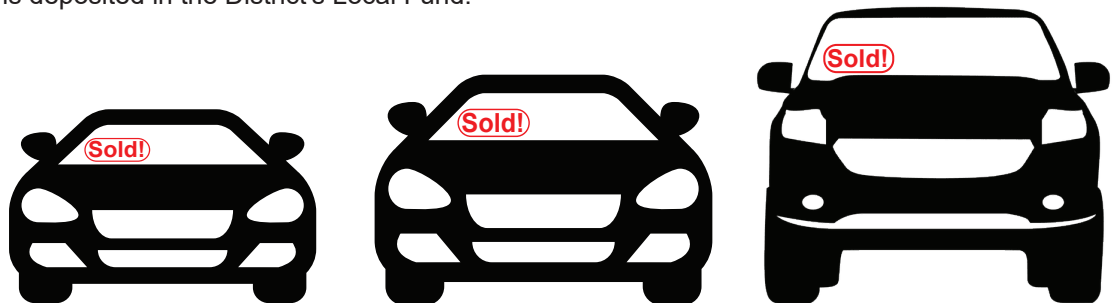
Motor Vehicle Fuel Tax Revenue Collected from FY 1984 to 2023

FY 2017 Dollars, In Millions



Motor Vehicle Taxes

The District levies an excise tax on the issuance of original and subsequent certificate of title on every motor vehicle and trailer sold in the District. Vehicles brought into the District by new residents, which have been titled elsewhere, are exempt from the tax. The tax is applied based on the vehicle's unladen weight and city miles per gallon (MPG). Electric cars are exempt. Revenue collected from this tax is deposited in the District's Local Fund.



Unladen Weight	3,499 lbs or Less	3,500 - 4,999 lbs	5,000 or More lbs
20MPG or Less	8.1%	9.1%	10.1%
21MPG - 25MPG	4.4%	5.4%	6.4%
26MPG - 30MPG	3.1%	4.1%	5.1%
31MPG - 39MPG	2.2%	3.2%	4.2%
40MPG or More	1.0%	2.0%	3.0%

Chapter 4

Gross Receipts Tax & Other Taxes

Gross Receipts Tax & Other Taxes

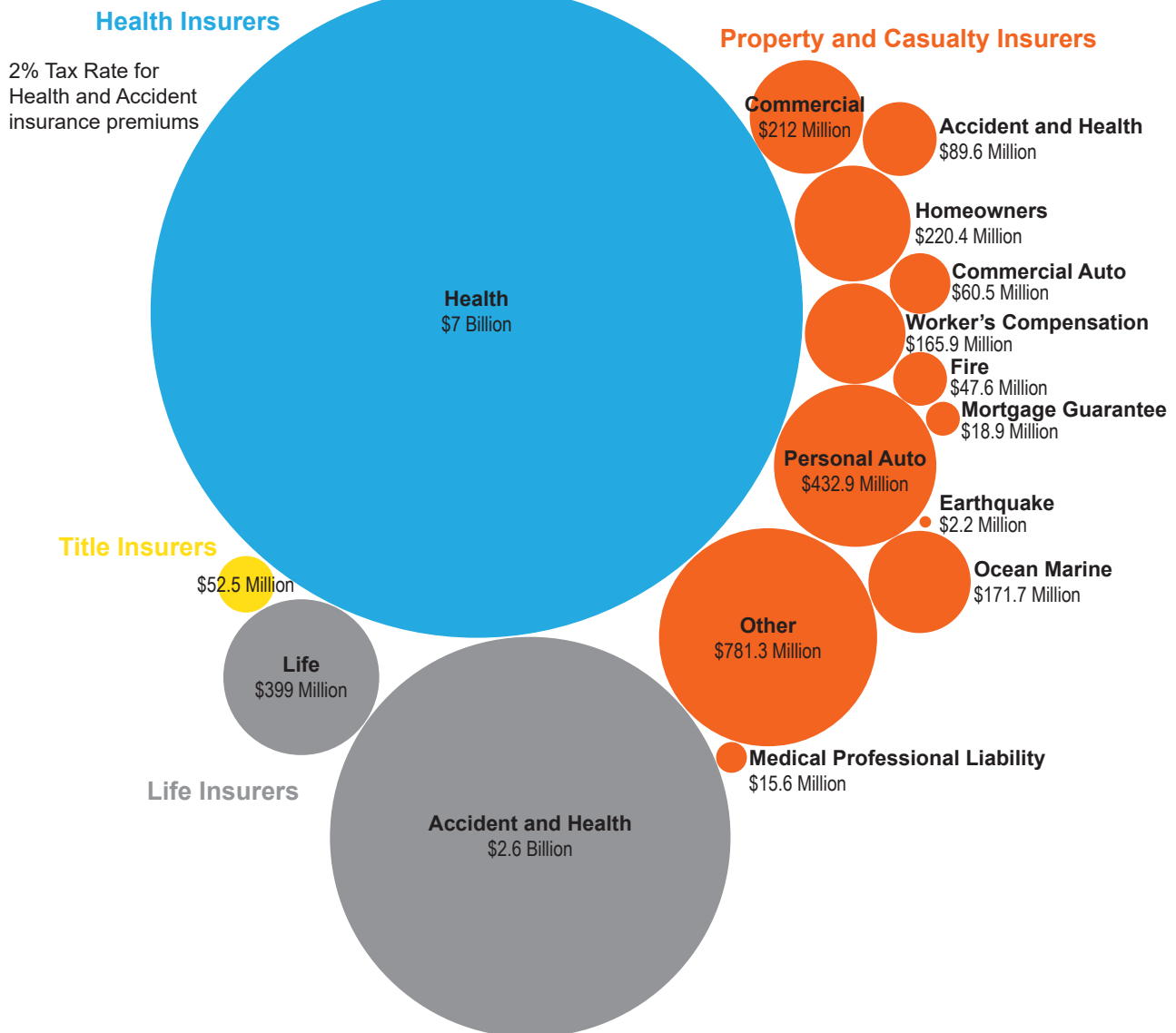
Beyond the three main taxes covered earlier in this report, the District government levies a variety of smaller taxes that collectively sum to just 7.3 percent of all local revenue collected in Fiscal Year 2023. Taxes included in this category are the Economic Interest, Estate, and Deed Transfer and Deed Recordation taxes. Gross Receipts tax is a tax on the total gross revenues of a company, regardless of their source. In the District, this tax is imposed on industries with certain services. These include health care providers, public utility providers, telecommunication providers, hospitals, insurance providers, sports wagering operators, game of skill machines, and all businesses with incomes of \$5 million or more.

For information on other minor taxes in this section such as toll telecommunications or healthcare related taxes go to the main Tax Facts Reports published on the OCFO's ORA website at ora-cfo.dc.gov/page/dc-tax-facts.

Insurance Premiums Tax

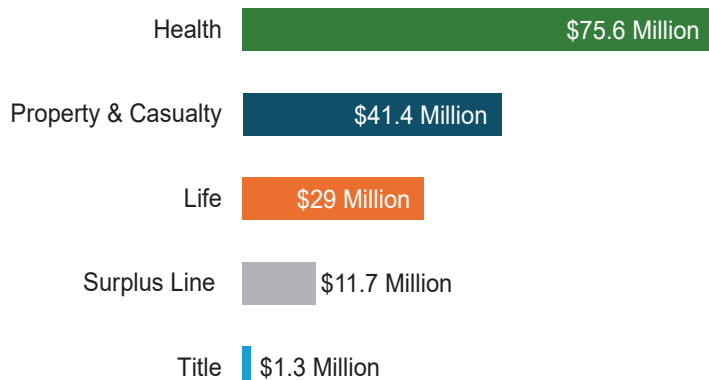
The District levies a 1.7 percent tax on gross insurance premiums received for insuring residents and businesses against risks in the District. Insurance companies pay the insurance tax instead of the corporate income tax.

Calendar Year 2023



Insurance Tax Generated \$124 Million

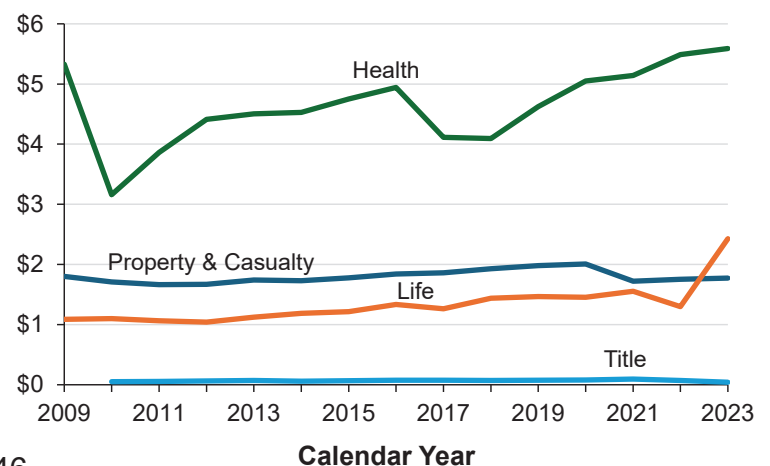
District's Local Fund with Transfers to Healthy DC and Health Care Expansion Fund, CY 2023



Insurance Premium Data Source: D.C. Department of Insurance, Securities, and Banking (www.disb.dc.gov).

Trends in Insurance Tax Base

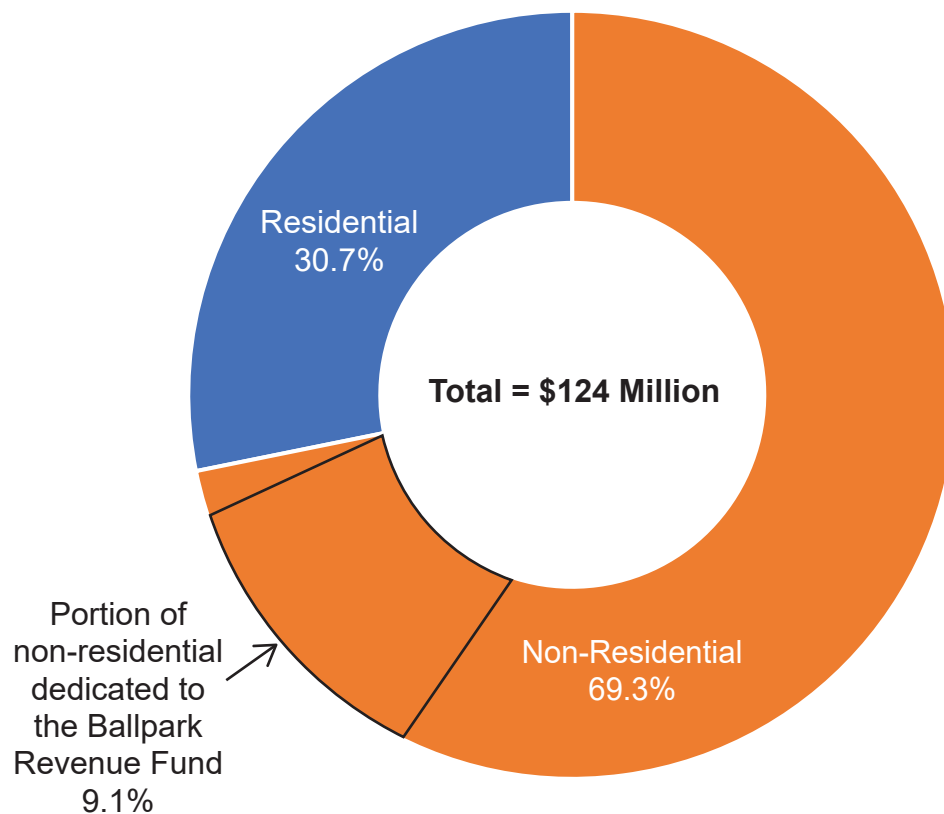
Annual Premiums in FY 2017 Dollars, in Billions



Public Utilities Tax

The public utility tax is levied on privately owned companies that provide and maintain services that District consumers use in everyday life such as heating oil, electricity, natural gas, television, radio, and telephone networks. The tax on TV, radio, and telephone services is a gross receipts tax meaning those companies are taxed on their annual gross sales. The tax on energy services is based on customer consumption levels using each utility's units of delivery as a basis of taxation which explains why revenue spikes are closely linked to weather events and fuel costs. A portion of this tax, specifically the 1 percent surcharge on non-residential energy and broadcasting services customers (except cable TV companies), is dedicated to the Ballpark Revenue Fund and the rest is transferred to the District's Local Fund.

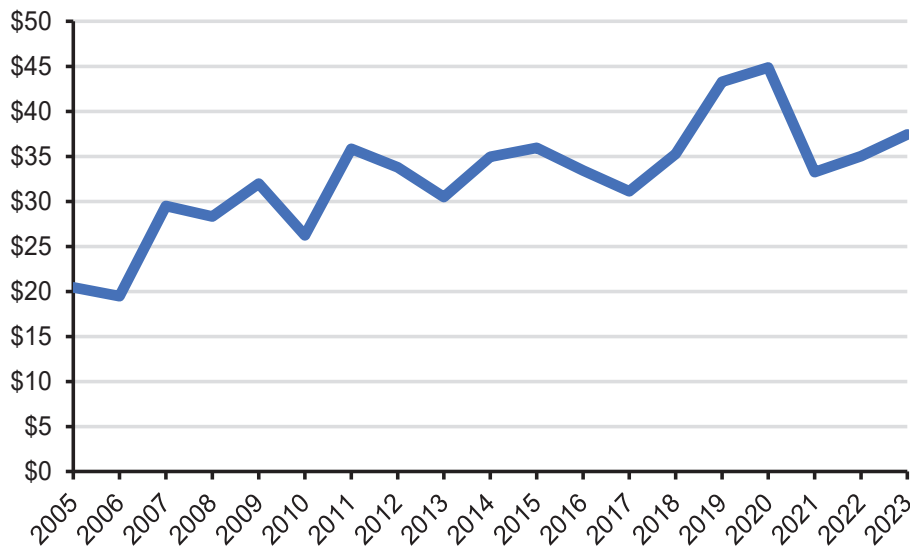
Annual Gross Receipts of Public Utility Companies, FY 2023



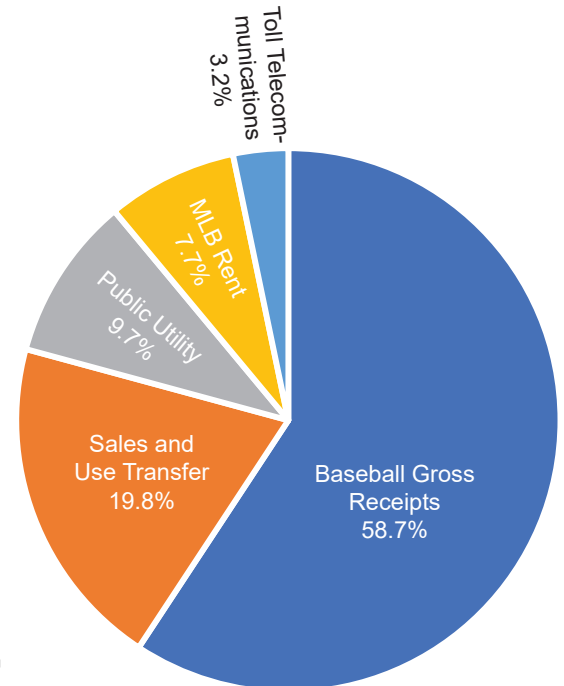
Baseball Gross Receipts Tax

The Ballpark Omnibus Financing and Revenue Act of 2004 established the ballpark fund which was created to repay the revenue bonds taken out to construct Nationals Park, DC's baseball stadium. The act, among other things, establishes the gross receipts tax which taxes companies doing business within the District that have annual gross receipts of \$5 million or more annually until the bonds are re-paid. The revenue generated by this tax goes entirely to the Ballpark Revenue Fund. The District also dedicates other revenues to the Ballpark Fund, as shown in the pie chart below.

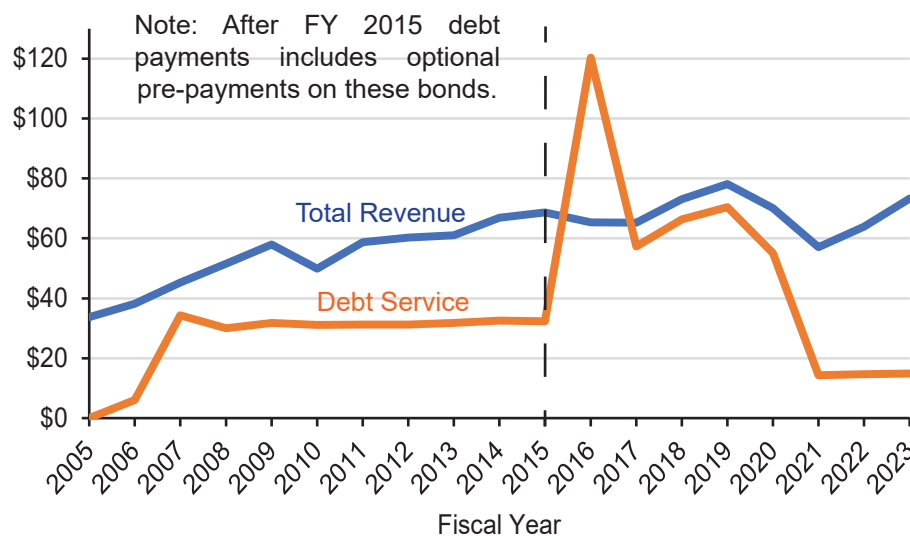
Baseball Gross Receipts Revenue from FY2005 to FY2023,
In Millions and FY 2017 Dollars



FY 2023 Dedicated Ballpark Revenue Fund Breakdown



Debt Service vs. Total Revenues Collected for the Ballpark Revenue Fund, In Millions



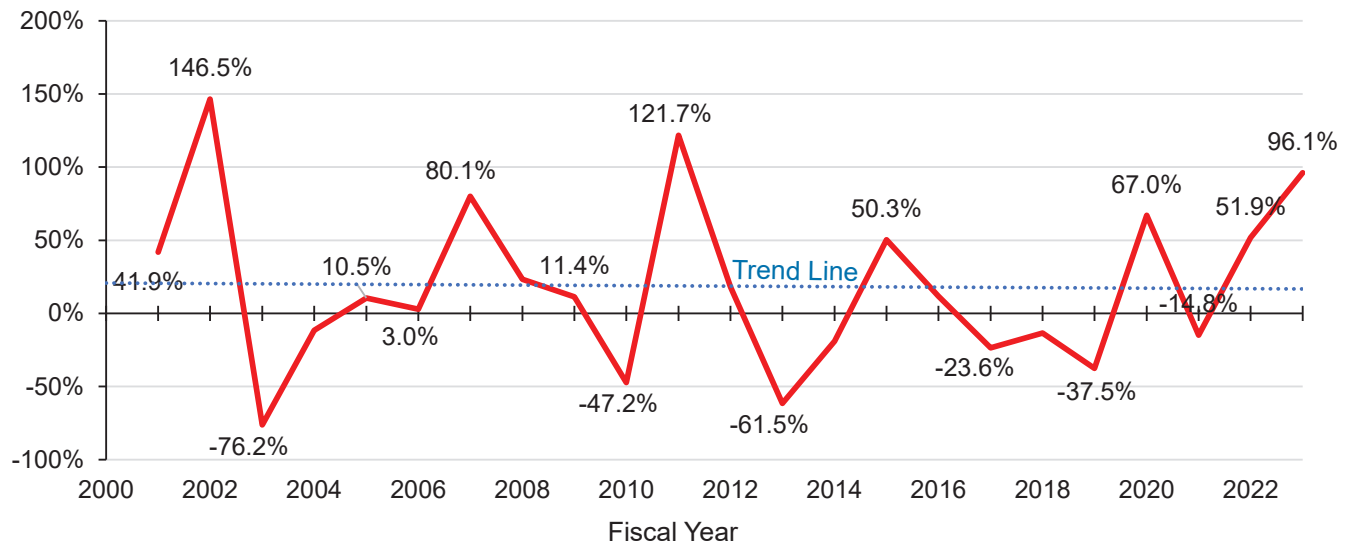
Since the FY 2011 Supplemental Budget Support Act, surpluses in this Fund are restricted to paying off baseball revenue bonds only, putting the District on track to pay off those revenue bonds before their maturity date of 2035.

Update: Subtitle (VII)(C) of the FY 2021 Budget Support Act of 2020 amended the previous law's restriction of this Fund's revenue dedication to allow its surpluses to transfer to the General Fund for fiscal years 2020, 2021, and 2022.

Estate Tax

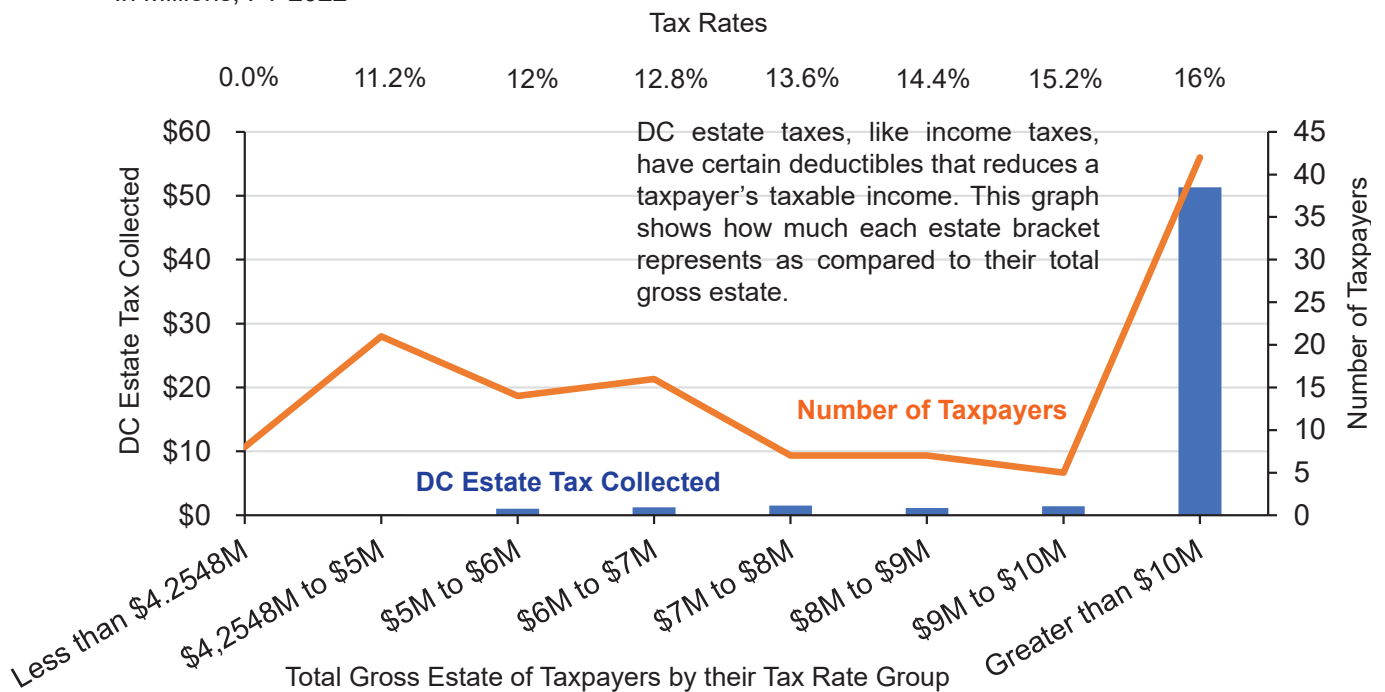
The District levies a tax on the estate, e.g. bank accounts, certificates of deposit, notes, securities and bonds, tangible personal property, and real property, of every resident shortly after the time of their death. The District also imposes an estate tax on every nonresident who owned taxable property in the District at the time of their death. Rates for the estate tax range from 11.2 to 16 percent in FY 2022 on gross taxable estates over the initial \$4,254,800 exclusion. Because deaths of high wealth residents vary year to year the estate tax is one of the most volatile taxes the District levies.

Year-Over-Year Percent Change in Estate Tax Revenue



How Much Estate Tax Revenue is Collected By Amount and Rate?

In Millions, FY 2022



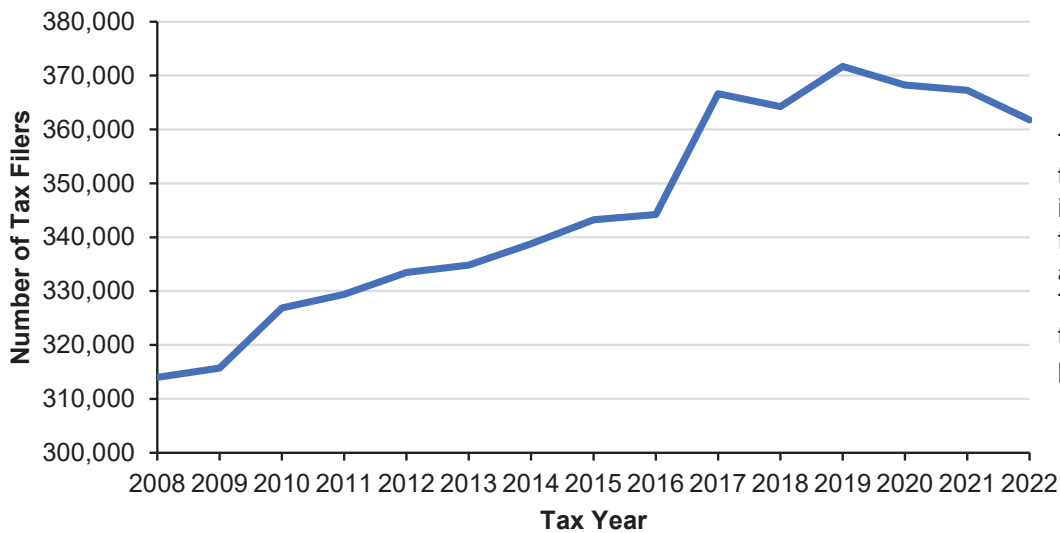
Chapter

5

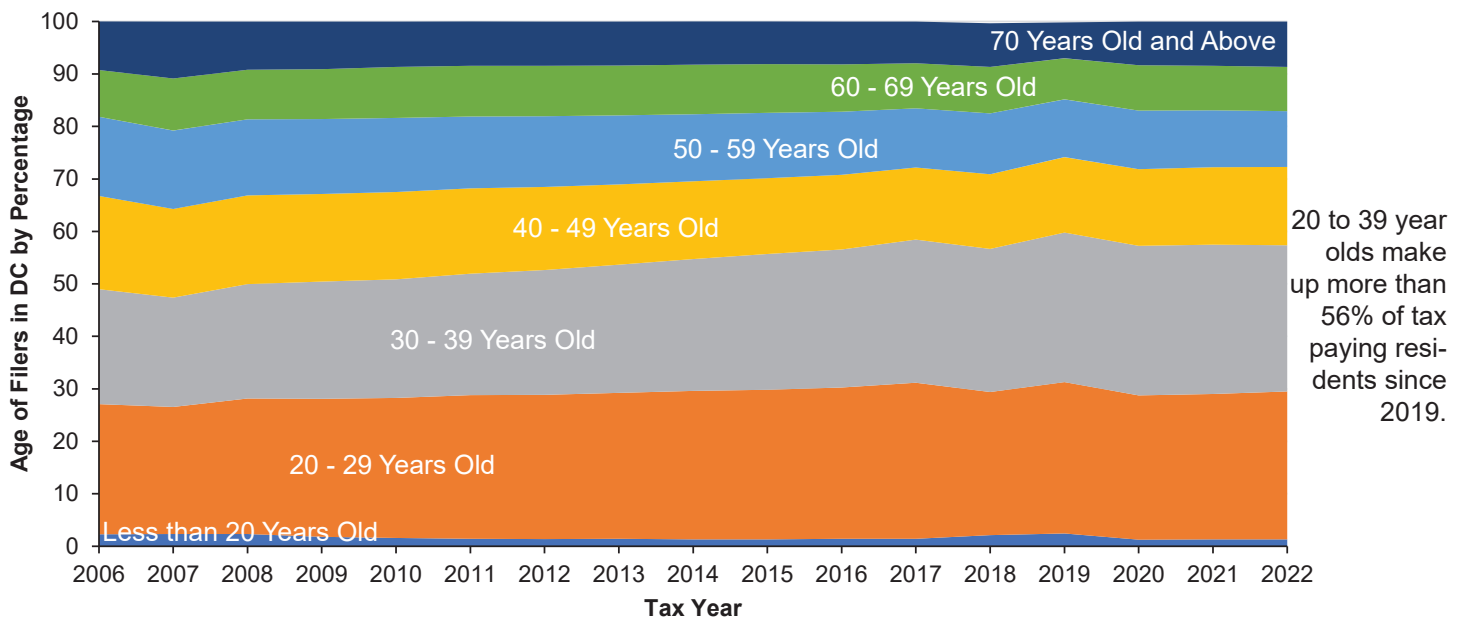
Demographic Information

Demographic Information from Individual Income Tax Data

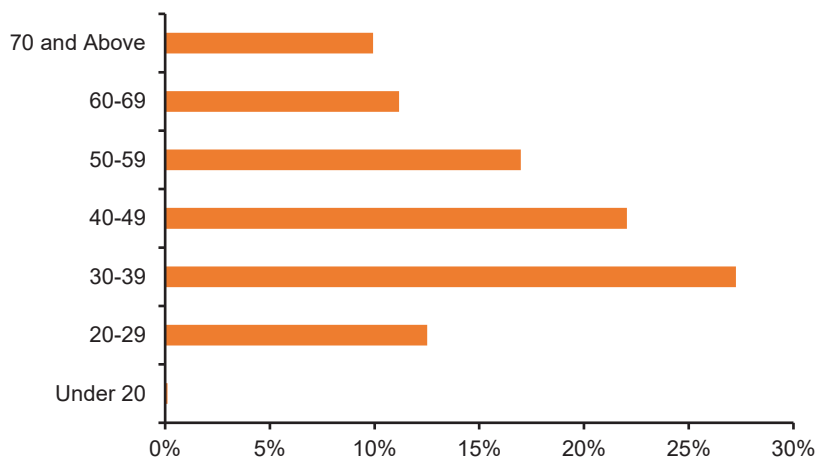
Population of Tax Filers in DC from 2008 to 2022



Age of Tax Filers in DC from 2006 to 2022

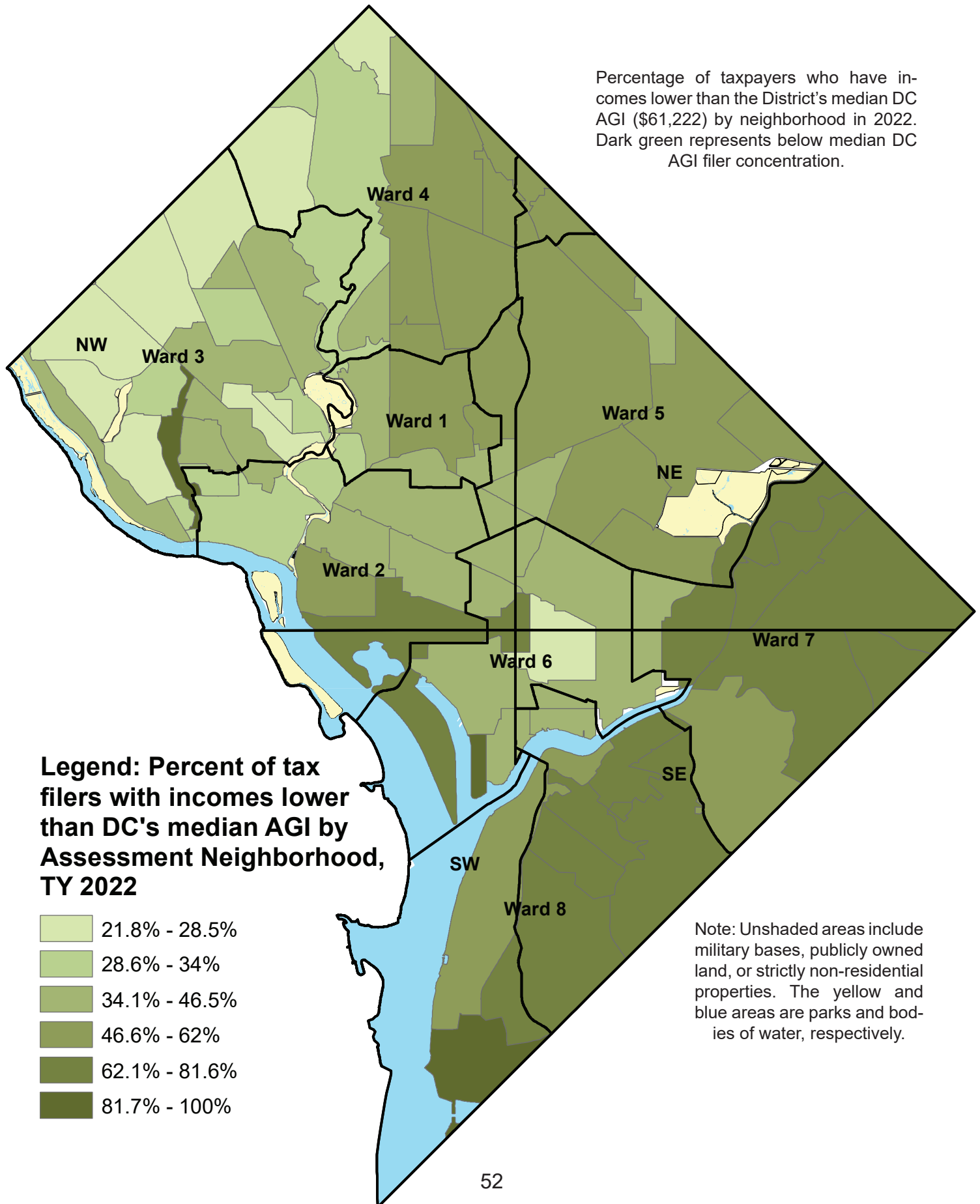


Total Adjusted Gross Income (AGI) by Age Group, TY 2022

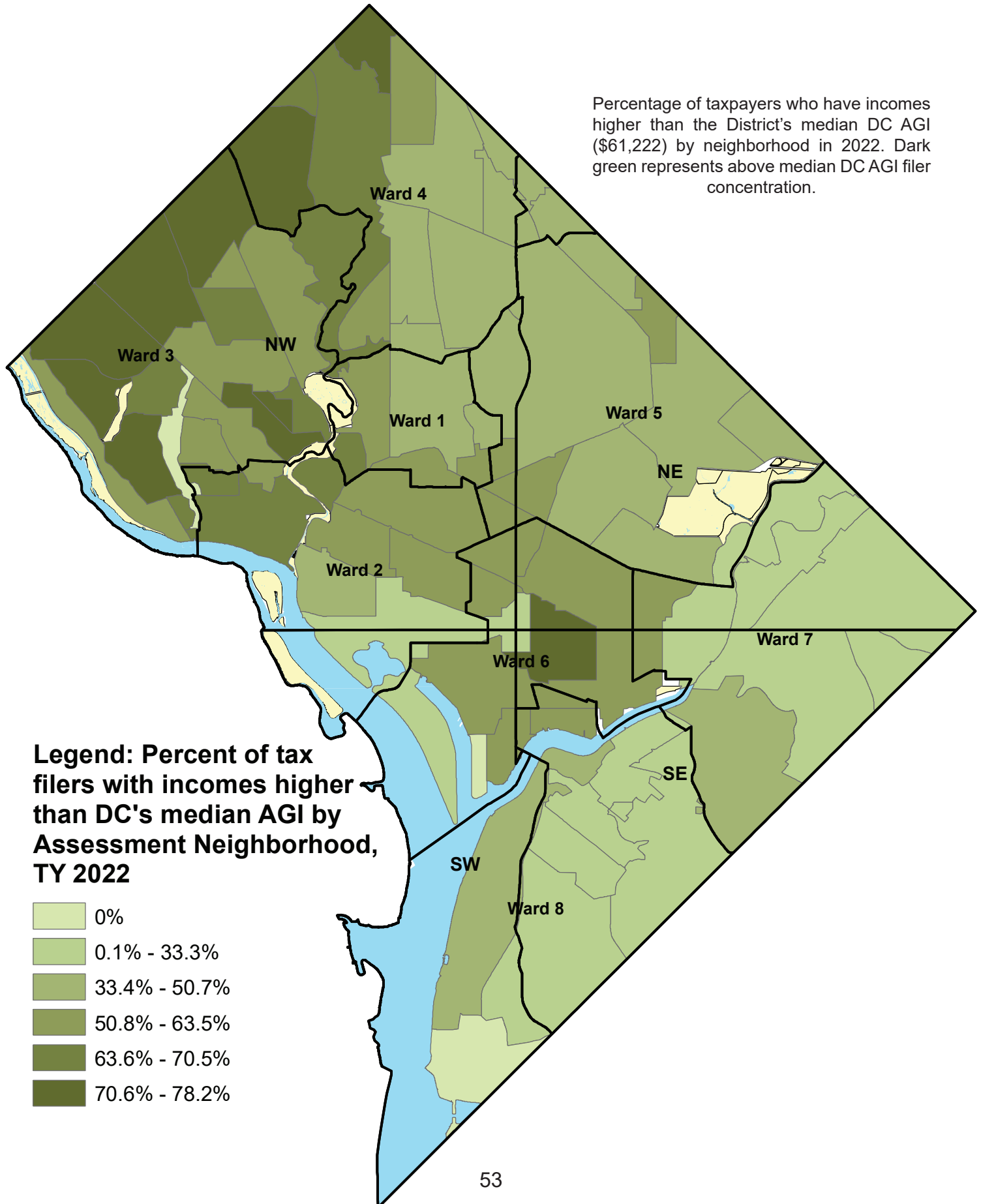


District residents between the ages of 30 and 49 years old earn 49.3% of the total AGI in the District.

Lower Incomes Concentrated in the SE and NE Quadrants



Higher Incomes Concentrated in the NW Quadrant



Data Sources

Overview of DC Local Revenues:

Office of Revenue Analysis (ORA) analysis of data from the FY 2023 Annual Comprehensive Financial Report (ACFR). Real GDP data comes from the U.S. Bureau of Economic Analysis.

Income Taxes:

ORA analysis of data from the Office of Tax and Revenue (OTR) or the FY 2023 ACFR. For more information on income taxes and rate changes please visit ora-cfo.dc.gov/page/dc-tax-facts for the latest Tax Facts Report. For more information on income credits and deductions please visit ora-cfo.dc.gov/page/tax-expenditure-studies for the latest tax expenditure report.

Property Taxes:

ORA analysis of data from OTR or the FY 2023 ACFR. For more information on property taxes and rate changes please visit ora-cfo.dc.gov/page/dc-tax-facts for the latest Tax Facts Report.

Sales, Use, and Excise Taxes:

ORA analysis of data from, unless stated on the page, OTR, the FY 2025 Approved Budget Book Executive Summary Revenue Chapter Table 3-6, or the FY 2023 ACFR. For more information on sales or excise taxes and rate changes please visit ora-cfo.dc.gov/page/dc-tax-facts for the latest Tax Facts Report. For more information on sales tax exemptions please visit ora-cfo.dc.gov/page/tax-expenditure-studies for the latest Tax Expenditure Report.

Gross Receipts and Other Taxes:

ORA analysis of data coming from, unless stated on the page, OTR or the FY 2023 ACFR. For more information on gross receipts and other taxes and rate changes please visit ora-cfo.dc.gov/page/dc-tax-facts for the latest Tax Facts Report.

Demographic Information:

ORA analysis of data coming from, unless stated on the page, OTR or the FY 2023 ACFR.

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Angell Jacobs, Deputy Chief Financial Officer and Chief of Staff
LaSharn Moreland, Human Resources Executive Director
David Tseng, General Counsel
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Marshelle Richardson, Chief Risk Officer
Aprajita Srivastava, Continuous Improvement Officer
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Office of Lottery and Charitable Games Economic Development and Regulation Events DC

Government Operations

Government Services

Human Support Services

United Medical Center

Primary and Secondary Education

Public Safety and Justice

Frank Suarez, Executive Director
Leroy Clay III, Associate Chief Financial Officer
Henry Mosley, Associate Chief Financial Officer
Angelique Hayes Rice, Associate Chief Financial Officer
George Dines, Associate Chief Financial Officer
Delicia Moore, Associate Chief Financial Officer
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